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TRADING IN PRIVILEGES ON THE CHICAGO BOARD OF TRADE

By
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Senior Agricultural Economist
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The following outline shows in condensed form what takes place when privileges are exercised by those who purchase them:

Generally bids are bought when the buyer expects a decline in the price of the future.		Generally offers are bought when the buyer expects an advance in the price of the future.	
When exercised the—		When exercised the—	
Purchaser of the bid sells a future at the bid price which is the same or higher than the closing price of the future on the day the bid is exercised.[1]	*Seller* of the bid buys a future at a price which is the same or higher than the close on the day when the bid is made good.[1]	*Purchaser* of the offer buys a future at the offer price which is the same or lower than the close on the day when the offer is exercised.[1]	*Seller* of the offer sells a future at the offer price which is the same or lower than the close on the day when the offer is made good.[1]
Purchaser of bids (1) goes short, or (2) liquidates existing long commitments in futures, or (3) makes an offsetting trade, thereby maintaining his position unchanged.	*Seller* of bids (1) goes long, or (2) covers existing short commitments in futures, or (3) makes an offsetting trade, thereby maintaining his position unchanged.	*Purchaser* of the offer (1) goes long, or (2) covers existing short commitments in futures, or (3) makes an offsetting trade, thereby maintaining his position unchanged.	*Seller* of the offer (1) goes short, or (2) liquidates existing long commitments in futures, or (3) makes an offsetting trade, thereby maintaining his position unchanged.

[1] When the bid or offer price is the same as the close, the privilege is usually not exercised. There are occasions, however, when the trader wishes to acquire or dispose of open commitments and is willing to exercise his privilege at "no profit."

CIRCULAR No. 323 DECEMBER 1934
UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C.

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By PAUL MEHL, *senior agricultural economist, Grain Futures Administration* [2]

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INTRODUCTION

Aside from a few short paragraphs in textbooks and pamphlets describing privileges, comments made from a historical standpoint by C. H. Taylor, a former member of the Chicago Board of Trade, (*7*)[3] [4] and references made in published hearings of congressional committees as to the desirability of retaining or abolishing privileges, and the Report of the Federal Trade Commission on the Grain Trade (*11*), nothing has been printed which throws light on trading in privileges. No comprehensive study had ever been made as to the extent privileges were traded in, the uses made of them by merchandisers

[2] The author is greatly indebted to members of the staff of the Grain Futures Administration and to G. Wright Hoffman of the University of Pennsylvania, who were very helpful in criticizing the manuscript.
[3] Italic numbers in parentheses refer to literature cited, p. 79.
[4] The Report of the Federal Trade Commission on the Grain Trade (*11, v. 12*) contains many excerpts from Mr. Taylor's history.

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of grain and by speculators, the frequency with which they were exercisable at a profit to buyers, and their economic value until the task was begun by the Grain Futures Administration. In preparing a report (*9*) in answer to Senate Resolution 40, adopted by the United States Senate on February 21, 1928, which requested certain information pertaining to reports made by members of grain exchanges, considerable data were collected concerning trading in grain futures during the period of January 3 to October 31, 1927. By obtaining supplementary material showing the privileges bought and sold on the Chicago Board of Trade by the principal traders in privileges during that period, it was possible to arrive at definite conclusions as to the extent bids and offers were traded in and used by the larger speculators in building up and disposing of speculative lines in Chicago wheat and corn futures. Additional data, obtained and analyzed, revealed the frequency with which privileges are exercised on the board of trade and the extent to which they may have a stabilizing influence on prices of futures.

In addition to concrete statistical data, the uses made of trading in privileges are presented herein together with the unfavorable aspects of such trading. Reference is also made to the change of attitude from time to time on the part of the officials of the Chicago Board of Trade with respect to privilege trading. Because of the scarcity of material on privilege trading it has been deemed advisable to make public the information collected by the Grain Futures Administration in order that it may throw further light on that phase of exchange activity for the benefit of those who may wish information on the subject.

PRIVILEGE DEFINED

A privilege in grain futures is a contract whereby one person acquires the right to sell to or purchase from another during a specified period (a day, week, or month) a definite quantity of a specified grain future [5] at a designated price. The option to sell, so acquired, is known as a "bid", and the option to purchase is known as an "offer". The buyer of a bid or an offer has the right to exercise, or not exercise, his privilege as he deems best. The seller of the bid or offer is required to "make good" the privilege only when it is exercised by the buyer.[6] In this respect a privilege differs from the ordinary future contract wherein the seller is obligated to deliver, and the buyer to receive, on the contract during the delivery month, the designated amount of contract grain. In the case of the privilege, the holder (buyer) has the right to decide whether or not a transaction in futures shall take place.

Privileges are variously referred to as "puts" and "calls", "ups" and "downs", "deferred acceptances" and "indemnities", as well as bids and offers. They are spoken of also as "dailies" or "weeklies", depending on the length of time they have to run. In continental Europe, privileges are termed "premiums" and are considered by Europeans as ordinary contracts for future delivery with a special

[5] A grain-future contract is an agreement to buy (or sell) at some future time, designated as the delivery month, in accordance with the rules of the exchange, a definite quantity of a certain grain at a price agreed upon.

[6] The grain trade usually speaks of the buyer of the privilege as the one who "makes good" the bid or offer when he exercises it. Herein, however, the term is used in the sense of fulfilling the agreement rather than in the more limited sense used by the trade.

stipulation that, in consideration of a cash payment, one of the parties has the right to withdraw from the contract within a specified time.

A resolution of the directors of the Chicago Board of Trade adopted on January 12, 1926, authorized trading in privileges under the name of "bids and offers for deferred acceptance", the contract forms being as follows:

Bid Subject to Deferred Acceptance

Chicago, Ill., ------------ 19--

In consideration of $----------, receipt of which I acknowledge, I agree at your election to purchase from you ---------- bushels of ------------ for delivery during ---------- 19-- at the price of $---------- per bushel. Your election to sell must be manifested by delivery to me of your written acceptance of this bid at or prior to the close of the market on ------------ 19--. If this bid is accepted, the resulting contract shall be deemed an exchange contract subject in all respects to the rules of the Board of Trade of the City of Chicago.

Offer Subject to Deferred Acceptance

Chicago, Ill., ------------ 19--

In consideration of $---------- receipt of which I acknowledge, I agree at your election to sell to you ---------- bushels of ------------ for delivery during ------------ 19-- at the price of $---------- per bushel. Your election to purchase must be manifested by delivery to me of your written acceptance of this offer at or prior to the close of the market on ------------ 19--. If this offer is accepted, the resulting contract shall be deemed an exchange contract subject in all respects to the rules of the Board of Trade of the City of Chicago.

Acknowledgment of Bid Subject to Deferred Acceptance

Chicago, Ill., ------------ 19--

I hereby acknowledge receipt of your bid to purchase from me ---------- bushels of ------------ for delivery during ---------- at the price of $-------- per bushel, subject to my election to sell which must be exercised at or before the close of the market on ------------ 19--.

Acknowledgment of Offer Subject to Deferred Acceptance

Chicago, Ill., ------------ 19--

I hereby acknowledge receipt of your offer to sell to me ---------- bushels of ------------ for delivery during ---------- at the price of $---------- per bushel, subject to my election to buy which must be exercised at or before the close of the market on ------------ 19--.

Buyers of bids are assumed to have purchased them in anticipation of a decline in the price of futures, whereas sellers are presumed to expect an advance or at least no material decline. With respect to offers the reverse is true: The purchasers are presumed to expect, or at least to guard themselves against, an advance, whereas the sellers are presumed to expect that prices will decline or at least that they will not advance beyond the price specified in the offer.

The purchase from the same person of a bid and an offer at the same price is termed a "straddle." It is a combined put and call, and gives the holder thereof the privilege of putting (selling) or calling (buying) the future, or both at the prices agreed upon. Straddles are sometimes termed "doubles." A trader will sell both bids and offers

only when a dull, inactive market is anticipated by him the following day. Straddles are seldom sold on grain exchanges in the United States.

LIFE OF BIDS AND OFFERS, TIME WHEN TRADED IN, AND COST

Trading in bids and offers good for 1 day is maintained for a half hour (1:30 to 2 p.m.) after the regular trading session has closed at 1:15 p.m., except on Saturdays when the time runs from 12:15 to 12:45 p.m.

Trading in privileges good "this week" begins on Monday morning of each week and is conducted each day until Wednesday; trading in those good "next week" begins on Tuesday morning and is conducted each day until and including Saturday of the current week. Weeklies may be bought or sold any time during the day from 9:30 a.m., to 2 p.m., except on Saturdays. On Saturdays the time limit is 9:30 a.m. to 12:45 p.m.

Transactions may be made in units of 1,000 bushels and multiples thereof. Bids good for 1 day are usually purchased at prices from 1 to 2 cents below the closing price of the future. Offers good for 1 day are generally from 1 to 2 cents above the closing price of the future. For weeklies the spread is somewhat larger.

For a privilege the buyer is charged a certain fee, the amount depending on whether the privilege is a bid or offer, a daily or weekly. The charge made for bids good for 1 day only, covering 5,000 bushels of wheat, corn, oats, or rye, is $5.25 to members and $5.50 to nonmembers. In the case of weeklies the charge is $7.50 per 5,000 bushels to both members and nonmembers. Five dollars of the fee for dailies and $6.25 of the fee for weeklies, per 5,000 bushels, goes to the seller of the privilege. The remainder of the fee is retained by the brokerage house as commission.

The fee charged for offers is at present the same as for bids, but an amount equal to the Federal tax is added because the seller has to pay the tax on the offers sold, and this he collects from the buyer. No tax, however, is collected at present on the sale of bids. In the early days of trading in puts and calls on the Chicago Board of Trade, there was no commission charge for executing orders for puts and calls, the commission houses relying on making their profits from the trades in futures growing out of the exercising of the privileges. Subsequently a commission was charged which at present is as stated above.

Although the above are the rates received by commission houses, the exchange rule specifies only the minimum to be charged. The rule reads:

Indemnities.—The minimum rates of brokerage and commission for trading in indemnities shall be as follows:

(a) On daily indemnities, where the privilege to buy or sell does not extend beyond the close of the session on the following business day, the brokerage payable by members shall be three percent of the consideration, the commission payable by non-members shall be ten percent of the consideration, the commission payable by members shall be five percent of the consideration, and the clearing rate, as defined in Rule 224, shall be two percent of the consideration.

(b) On other indemnities, where the privilege to buy or sell extends beyond the close of the session on the following business day, the commission payable by the buyer, whether member or non-member, shall be fifty percent of the consideration. One-half of this commission shall be retained by the commission merchant representing the buyer, and the other half shall be paid to the commission mer-

chant representing the seller, provided that, if the buyer is not represented by a commission merchant, the buyer may retain that part of the commission payable to his commission merchant; and, if the seller is not represented by a commission merchant, the seller may retain that part of the commission payable to his commission merchant. On indemnities of this character, the brokerage payable by members shall be ten percent of the consideration, and the clearing rate shall be two percent of the consideration.

(c) In all cases, there shall be added to the purchase price, and paid by the buyer to the seller of an indemnity, the amount of the Federal taxes.

THE EARLY HISTORY OF PRIVILEGE TRADING

Trading in privileges in Chicago has been carried on since the early sixties. On the Chicago Board of Trade, however, they have been traded in only at intermittent periods. In 1865 the rules of the exchange did not recognize trading in privileges. Taylor (7) says:

> What are known as "puts" and "calls" were discountenanced by the closing paragraph of rule XI, which ran as follows: "Privileges bought or sold to deliver or call for grain or other property by members of the Association shall not be recognized as a business transaction by the Directors or Committee of Arbitration." Dealing in these privileges, however, though not recognized, does not appear to have been forbidden.

This provision, however, was dropped from the rules published in 1869.

In 1874, a law was placed on the statute books of Illinois, which prohibited trading in privileges. Following the enactment of this legislation, the directors of the exchange adopted a resolution prohibiting the buying or selling of puts or calls on the exchange floor, but it was seldom enforced (7, v. 1, p. 530).

In February 1885, a case, based on the law of 1874, was decided by the Illinois Supreme Court, which definitely established the illegality of trading in privileges. [7] In making its decision, the court said:

> It is plain that under the contract between plaintiff and the firm of Hooker & Co., it was not in the contemplation of the parties any actual purchases or sales of grain or other commodities should be made for plaintiff, or on his behalf. Indeed, it was expressly agreed none should be made. All the speculating that was to be done was to be in differences in options—or, as the parties termed it, "betting on the market." Of course, it was expected by the parties that such purchases and sales of grain or other commodities that should be made, were to be made on the board of trade. As was said by this court in *Pixley* v. *Boynton*, 79 Ill. 351, the true idea of an option is what are called, in the peculiar language of the dealers, "puts" and "calls." A "put" is defined to be the "privilege of delivering or not delivering" the thing sold, and a "call" is defined to be the "privilege of calling for or not calling for" the thing bought. "Optional contracts," in this sense, are usually settled by adjusting market values, as the party having the "option" may elect. It is simply a mode adopted for speculating in differences in market values of grain or other commodities. It must have been in this sense the term "option" is used in the statute.

In 1887 the board of directors adopted another resolution forbidding the practice of trading in privileges, but this did not accomplish the results desired as members of the exchange resorted to the Open Board of Trade, another market in Chicago, where trading in privileges was permitted. Disciplining the members of the Chicago Board of Trade who traded in privileges was not found feasible as too many of them were engaging in the practice, and the punishing of all the violators might have meant the disrupting of the board of trade. With

[7] *Pearce* v. *Foote*, 113 Ill. 234. See also Federal Trade Commission Report on the Grain Trade (*11, v. 2, pp. 114–15*).

the failure to enforce the rule, trading in privileges on the part of the members increased off the exchange.

Taylor (*7, v. 2, pp. 741–742, 771*), made the following comments pertaining to privilege trading during the years 1887 and 1888:

The Directors of the Board of Trade were determined to keep trading within the limits prescribed by law and passed a resolution prohibiting trading in puts and calls, following this action by suspending a member for fifteen days for violation of the rule. The Open Board continued to trade in privileges, the transactions being stated as amounting to about 3,000,000 bushels daily. Some members of the regular Board took advantage of this opportunity to make these prohibited trades and the question arose as to the jurisdiction of the Board of Trade over transactions taking place on another Exchange. John T. Lester led the fight against privilege trading and complaints were filed against a number of members. * * * In the latter part of January [1887] twelve members were called up for discipline on evidence said to have been furnished by H. C. Avery that they had been trading in privileges on the Open Board. This action enraged Mr. Hutchinson [B. P.] who was indignant that he had not been included among the offenders and threatened "to make it hot" for the Board. Inasmuch as the Directors had denied jurisdiction in the case involving the enforcement of a trade made on the Open Board, it was argued that they could not discipline members on account of such trades, but nevertheless seven members were suspended for from twenty to ninety days, and among those suspended was M. B. Crafts, the President of the Open Board. The fight against privileges was now carried into the Open Board itself. Mr. Crafts favored privilege trading, while T. M. Baxter led the opposition. Mr. Baxter claimed to have found a rule of the Open Board against privileges, which was not printed with the other rules, and under this filed complaints against ten members. Mr. Crafts, on the other hand, came forward with a plan for a "contract of indemnity" which was to replace Puts and Calls and which was practically the same thing under another name. At a meeting of the Directors of the Open Board, their attorney, L. H. Bisbee, cited a decision favorable to Puts and Calls found in 114 Illinois Supreme Court Reports. Acting on this advice, the directors of the Open Board refused to present the question of privilege trading to the members. The next step on the part of the regular Board was to post a rule declaring irregular any trades made after the adjournment of the Board, and this rule was adopted February 15 [1887]. * * *

During the latter part of July [1888] the Directors considered the cases of three small traders accused of dealing in Puts and Calls and gave a sentence of suspension against them. There was much outcry concerning this and demand was made that the larger traders be punished also. The Directors pushed the investigation and Directors Montague, Richardson, and Rawleigh were appointed to go into the matter more thoroughly. They called some of the offenders before them and four members confessed to deals in Puts and Calls but refused to inform on others. Following this, nearly fifty members were called before the Committee. Many made admissions of guilt, but it was found that it would be impossible to punish all, without disrupting the Exchange and there was much sentiment in favor of reinstating the three suspended members. As a result of the investigation twenty-nine members were reprimanded, the suspended members were restored and secret committees appointed to report further violations, which were to be punished by expulsion. Following the example of the regular Board, the Open Board acted also, and President French of that institution announced that the rule against trading in privileges would be strictly enforced.

In 1895, however, the newly elected president of the board of trade (*1*) advocated the immediate enforcement of the rules against trading in privileges. In his inaugural address he said (*1, p. xix*):

Trading in privileges has become so common outside of Exchange hours as to impair the good name of the Association. These transactions are outside the law and are distinctly obnoxious to your own rules. They can not be enforced either in the courts or under the rules of this Board, and anybody can sue at any time and recover for even inconsequential losses. The Illinois statute prescribes penalties of fine and imprisonment for making such contracts, and specifically declares that all such contracts "shall be considered gambling contracts and shall be void." It is claimed that the dull state of trade makes these transactions necessary, but do they not contribute to an important extent to the very stagna-

tion you complain of? By coopering prices within a narrow limit day after day, do you not discourage business that you would count on in a free and unrestricted market? The risks assumed by you as commission merchants are beyond computation, and more than all else in making these transactions we violate the law. I sincerely urge that means may be taken to put an end to the practice at once.

By 1900 sentiment had changed to the extent that by a vote of 623 to 373 the directors were given the authority to prevent trading in privileges and to suspend or expel any member found dealing in them. This change in attitude by the board members was largely due to the court decision rendered at that time which affirmed the validity of the 1874 statute.[8] The court held that:

* * * The prohibition of the right to enter into contracts which do not contemplate the creation of an obligation on the part of one of the contracting parties to accept and pay for the commodity which is the purported subject matter of the contract, but only to invest him with the option or privilege to demand the other contracting party shall deliver him the grain if he desires to purchase it, tends materially to the suppression of the very evil of gambling in grain options which it was the legislative intent to extirpate, for the reason such evil injuriously affected the welfare and safety of the public. The denial of the right to make such contracts tended directly to advance the end the legislature had in view, and was not an inappropriate measure of attack on the evil intended to be eradicated. So far as that point is concerned the act must be deemed a valid law of the land, and as such must be enforced, though it infringe in a degree upon the property rights of citizens. To that extent private right must be deemed secondary to the public good.

The apparent change of heart was primarily with respect to trading in privileges in Chicago. In fact, the desire to trade in privileges was not suppressed, and trading was carried on by telegraph between Chicago and Milwaukee, where privileges could be bought or sold. In 1906 an amendment to the rules of the Chicago Board of Trade was adopted which prohibited trading in outside markets based on Chicago receipts. The amendment (to sec. 8 of rule 4) was as follows:

When any member, or any firm of which a member of this Association is a member, or any corporation of which a member is an officer, whether acting as principal or as agent, shall either directly or indirectly make or execute, or cause or permit to be forwarded for execution, upon any exchange or board of trade located outside of the City of Chicago, an order for a so-called "put" or "call", or for any contract respecting the purchase or sale of grain or provisions for future delivery, when by the rules, regulations, customs, or usages of such exchange or board of trade it is provided or permitted, or where the parties to such "put", "call", or contract contemplate that such "put", "call", or contract may be fulfilled or satisfied by the delivery of a warehouse receipt or receipts issued by a warehouse located in Chicago, such member, or such member of such firm, or such officer of such corporation shall be deemed guilty of conduct which renders him unfit for membership in this Association, and upon conviction thereof he shall be expelled.

To meet the demands of those who wanted privilege trading, a new method was adopted which met the approval of legal counsel as not being in violation of the law of 1874. The new system consisted of contracts to be designated as "indemnity of sale or purchase" on the theory that there would be no wager on price movements but rather the making of a contract, the purpose of which was to protect open commitments against loss due to price changes. These contracts were to expire at the close of the regular session of the exchange on the following day. Should the holder of the indemnity desire to exercise the privilege with respect to the whole or part of the quantity

[8] *Booth* v. *People*, 57 N.E. 798. Also see Federal Trade Commission Report on the Grain Trade (*11, v. 2, pp. 116–118*).

covered in the contract he must, after notifying the seller of his intention, make a sale to (or purchase of) the seller of the contract at the regular closing price of the future, and the difference between the price of the indemnity and the future was to be paid immediately as indemnity (*11, v. 2, pp. 118–120*).

This method of operation was carried on until 1910. In that year the exchange was under investigation by the Federal Government, and the directors voted to abolish trading in indemnities as being substantially the same as trading in puts and calls. In September of that year, however, an amendment to the rule was passed by members of the exchange by a vote of 550 to 105 providing for trading in indemnities under certain restrictions believed to make such transactions legally sound. The restriction was to insert in each indemnity contract and confirmation a stipulation that the indemnity was bought to protect an existing and legitimate insurable interest in the commodities forming the subject matter of the risk not otherwise protected by contract made under this rule. When no insurable interest existed it was considered as gambling (*7, v. 2, p. 1155; 11, v. 2, p. 120*). This amended rule was in existence until 1913.

In 1913 the Illinois Legislature amended the law of 1874 to prohibit such contracts only—

> where it is at the time of making such contract intended by both parties thereto that the option whenever exercised or the contract resulting therefrom shall be settled, not by the receipt or delivery of such property, but by the payment only of differences in prices thereof.

James C. McMath (*5*) of the Chicago Bar, apparently takes the position that the 1913 amendment does not legalize trading in privileges. He contends that sections 130 and 132 of the Illinois Criminal Code are effective as enacted in 1874. His ground for believing so is that the 1913 amendment contained verbatim the language of section 130 as enacted in 1874 with some new language added, and he cites *Svenson* v. *Hanson* [9] as his authority, in which the court said:

> It is elementary that when an amendatory act retains in a new law the same words and phraseology that were contained in a former law which has been construed by the courts, it must be presumed that such law was retained in the amendatory act in view of the judicial construction already placed upon it.

Following the change in the law the board of trade adopted a rule permitting trading in bids and offers and designated the commission to be charged members and nonmembers.

In 1921 when the Future Trading Act was introduced in Congress, and the grain exchanges were subjected to public criticism for not correcting certain evils which were alleged to exist, the directors of the Chicago Board of Trade again conceded that trading in privileges was contrary to public interest and advocated its prohibition. In a communication to the president of the board, dated April 12, 1921, they made the following statement (*10, p. 476*):

> It is our firm purpose to prevail upon our membership to so amend our rules as to preclude all transactions in indemnity contracts and at the same time induce other exchanges to follow the same course. While these contracts at times serve a very useful economic function, nevertheless they are frequently used as a medium of entering the market on a large scale. We have concluded that this fact outweighs all of their advantages, and it has led to our conclusion that they should be abolished.

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[9] *Svenson* v. *Hanson*, 289 Ill. 242.

With the enactment of the Future Trading Act of 1921, trading in privileges again was legislated out of existence by the imposition of a tax of 20 cents a bushel. On October 23, 1923, a test case was brought before a Federal court calling into question the constitutionality of that part of the law pertaining to privileges. Later, on January 11, 1926, the United States Supreme Court, to which the case had been appealed, rendered a decision in which it was held that the provision in the Future Trading Act pertaining to privileges was unconstitutional as an invalid exercise of the taxing power.[10]

On January 12, 1926, the next day following the decision, the directors of the Chicago Board of Trade passed a resolution permitting trading in privileges on the exchange thereby reversing the position the exchange had taken on previous occasions when it approved the prohibition of trading in privileges. Other exchanges followed suit and trading in bids and offers was again permitted.[11]

During the early put-and-call days the trading was done mainly in the pits. Following an Illinois Supreme Court decision declaring these transactions gambling and illegal, as under an act entitled, "An Act to revise the law in relation to criminal jurisprudence" approved May 27, 1874, in force July 1, 1874, the trading was done outside of the trading room, in the halls and smoking room of the board of trade building, outside of the building, and sometimes at any convenient time or place where buyer and seller happened to meet.

Prior to 1913 payments incident to the transactions in privileges were in currency, without any definite record made except such as was kept by buyer and seller. Subsequent to the enactment of Illinois Senate Bill No. 126 in 1913 (except for the period following the enactment of the Future Trading Act in 1921, terminating with the Supreme Court decision in 1926), trading in privileges was officially recognized by the Chicago Board of Trade under the designation of indemnities or "deferred acceptances." The trading in privileges then returned from the outside, was carried on in the pit, and confined to that period of the day designated for such trading, although privileges valid for more than a day were traded in at any time during the day. Money transactions were recorded and handled through the Clearing Association.

VOLUME OF TRADING IN PRIVILEGES

No record has ever been compiled by the board of trade of the volume of trading in bids and offers. A record of the volume of sales of offers is kept, however, by the Bureau of Internal Revenue of the United States Treasury Department, which collects a stamp tax on sales of offers. The tax return filed by each clearing member of the exchange shows the daily sales for each month. For the total trading in offers the figures showing the sales will serve the purpose, for the total purchases must equal the total sales.

For the 8 months, February to September 1921, immediately prior to the prohibition of trading in privileges by the Future Trading Act, the quantity of offers sold on the Chicago Board of Trade was as shown in table 1.

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[10] *Trusler* v. *Crooks*, 269 U.S. 478.

[11] Following the price collapse of July 19–20, 1933, trading in privileges on the Chicago Board of Trade was suspended by order of the board of directors on July 24, 1933, until further notice.

TABLE 1.—*Volume of trading in offers compared with futures on the Chicago Board of Trade during February to September 1921*

Grain	Volume of trading in futures (sales)	Volume of trading in offers (sales)	Proportion trading in offers is of trading in futures
	Thousand bushels	*Thousand bushels*	*Percent*
Wheat	8, 181, 206	724, 712	8. 86
Corn	4, 375, 445	545, 325	12. 46
Oats	1, 940, 666	215, 426	11. 10
Rye	130, 032	1, 675	1. 29
Total	14, 627, 349	1, 487, 138	10. 2

The same rate of trading for 12 months would make a total of offers sold during 1 year of nearly 2 billion bushels.

Records of all firms for wheat were taken for the months of August and September 1926, as a sample of the volume of trading in this one grain in offers since privilege trading was resumed. The totals obtained together with a comparison with the total volume of trading in Chicago futures for these 2 months are shown in table 2.

TABLE 2.—*Volume of trading in wheat offers compared with wheat futures on the Chicago Board of Trade during August and September 1926*

Month	Volume of trading in futures (sales)	Volume of trading in offers (sales)	Proportion trading in offers is of trading in futures
	Thousand bushels	*Thousand bushels*	*Percent*
August	1, 014, 634	94, 140	9. 28
September	942, 762	98, 280	10. 42
Total	1, 957, 396	192, 420	9. 83

As there is no internal revenue tax on bids, no figures are available showing the extent of trading therein. Over a period of time, however, the volume of bids traded in would be about the same as the volume of offers.

Judging from these samples, the volume of trading in bids and offers in wheat is equivalent to approximately 15 percent of the volume of trading done in wheat futures on the Chicago Board of Trade. This percentage of trading in privileges appears relatively large as it is equivalent to the combined volume of trading in wheat futures on all of the other contract markets.

The volume of trading in privileges is distributed among the various brokerage houses in about the same percentage as is the trading in grain futures. Those commission houses having a large volume of futures trades usually have a large volume of trading in privileges, with approximately three fourths of the total trading concentrated in 20 to 30 houses.

Trading in privileges varies from month to month. When the daily price fluctuations of futures become wider the volume of trading in privileges is larger than when futures fluctutations are narrow.

EXTENT PRIVILEGES ARE TRADED IN BY THE LARGER SPECULATORS

Privileges are traded in principally by speculators. They are sometimes used by hedgers, comprising elevator operators, exporters, and millers, but only to a comparatively small degree.

The large speculators, with a few exceptions, are principally sellers of privileges whereas the small traders, known as the "general public", are mainly buyers. From the standpoint of the amount traded in, the purchases of a small minority of the large speculators sometimes exceed the sales of the majority of the large speculators who are sellers. With few exceptions, the larger speculators seldom use privileges for protective purposes, and it is an open question as to what extent the general public uses them as a form of insurance.

Reliable information as to the extent that privileges are traded in by the larger speculators was not secured until an examination was made of the 1927 records of the brokerage houses. Data were obtained covering the first 10 months of 1927 which showed the trading in privileges by 29 of the larger speculators in wheat and corn. Their aggregate purchases of wheat privileges amounted to approximately 414,000,000 bushels and of corn privileges 191,000,000 bushels. The sales were 332,000,000 and 215,000,000 bushels, respectively, as shown in table 3. When compared with their transactions in futures, it was found that the volume of their trading in privileges was equivalent to 45 percent of their combined trading in wheat and corn futures.

TABLE 3.—*Volume of trading in wheat and corn privileges for the accounts of 29 large speculators compared with their trading in futures, from Jan. 3 to Oct. 31, 1927*

[In millions of bushels, i.e., 000,000 omitted]

Grain	Trading in futures		Trading in privileges				Total of bids and offers	
			Purchases		Sales			
	Purchases	Sales	Bids	Offers	Bids	Offers	Purchases	Sales
Wheat	774	881	243	171	206	126	414	332
Corn	452	451	117	74	118	97	191	215
Total	1,226	1,332	360	245	324	223	605	547
Percent trading in privileges is of that in futures							49	41

Although most of the 29 traders were principally sellers of privileges in Chicago wheat futures, the aggregate purchases of the group were larger than their sales. With respect to privileges in corn, their aggregate purchases were less than their sales. This shows that

although the large buyers of privileges in the group were in the minority, their purchases of privileges in wheat outweighed the sales of the sellers who were in the majority. In corn, the purchases of the minority were exceeded by the sales of the majority.

The trading in bids and offers of these traders during 1927 varied considerably from month to month as shown in tables 4 and 5. During some of the months the trading in wheat was light, as for instance in January and February, whereas in other months, May for example, the trading was heavy. The quantity traded in varies with the price movements taking place from day to day, i.e., if price movements are large privilege trading becomes heavier, and if price changes are small the volume of privilege trading is lighter.

TABLE 4.—*Wheat: Monthly trading in privileges, by 29 large speculators, Chicago Board of Trade, with the percentage of bids and offers made good, from Jan. 3 to Oct. 31, 1927*

Month	Bids						
	Purchases	Sales	Net trade[1]	Made good		Percentage made good	
				Purchases	Sales	Purchases	Sales
	Thousand bushels	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Percent*	*Percent*
January	4,095	12,350	−8,255	220	3,260	5.37	26.40
February	8,275	8,905	−630	290	1,335	3.50	14.99
March	33,815	25,940	+7,875	5,110	6,030	15.11	23.25
April	22,020	13,585	+8,435	2,770	3,130	12.58	23.04
May	50,360	33,160	+17,200	1,555	1,450	3.09	4.37
June	30,015	24,170	+5,845	4,470	3,870	14.89	16.01
July	16,785	13,170	+3,615	1,865	2,115	11.11	16.06
August	20,850	9,955	+10,895	1,015	1,235	4.87	12.41
September	20,675	25,395	−4,720	1,255	3,450	6.07	13.59
October	36,530	39,440	−2,910	5,255	7,690	14.39	19.50
Total	243,420	206,070	+37,350	23,805	33,565	9.78	16.29

Month	Offers						
	Purchases	Sales	Net trade[1]	Made good		Percentage made good	
				Purchases	Sales	Purchases	Sales
	Thousand bushels	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Percent*	*Percent*
January	7,080	6,040	+1,040	2,775	2,485	39.19	41.14
February	11,735	5,835	+5,900	1,210	200	10.31	3.43
March	23,910	13,335	+10,575	1,735	2,055	7.26	15.41
April	21,265	7,060	+14,205	3,530	1,045	16.60	14.80
May	21,240	25,790	−4,550	4,695	6,270	22.10	24.31
June	19,350	20,115	−765	1,725	1,810	8.91	9.00
July	13,765	11,185	+2,580	2,125	1,825	15.44	16.32
August	18,310	10,460	+7,850	1,465	1,300	8.00	12.43
September	16,705	11,845	+4,860	310	1,250	1.86	10.55
October	17,560	14,090	+3,470	1,990	2,350	11.33	16.68
Total	170,920	125,755	+45,165	21,560	20,590	12.61	16.37

[1] Plus sign indicates net purchase; minus sign, net sale.

TABLE 5.—*Corn: Monthly trading in privileges, by 29 large speculators, Chicago Board of Trade, with the percentage of bids and offers made good, from Jan. 3 to Oct. 31, 1927*

Month	Bids						
	Purchases	Sales	Net trade [1]	Made good		Percentage made good	
				Purchases	Sales	Purchases	Sales
	Thousand bushels	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Percent*	*Percent*
January	3,105	2,145	+960	----------	725	----------	33.80
February	4,150	2,595	+1,555	1,540	1,225	37.11	47.21
March	9,700	5,160	+4,540	1,750	930	18.04	18.02
April	4,105	4,885	−780	1,070	945	26.06	19.34
May	16,520	19,290	−2,770	170	362	1.03	1.88
June	10,685	16,395	−5,710	1,110	1,610	10.39	9.82
July	11,270	10,235	+1,035	935	1,755	8.30	17.15
August	12,940	10,015	+2,925	1,770	800	13.68	7.99
September	16,025	17,005	−980	5,080	3,375	31.70	19.85
October	28,440	30,510	−2,070	5,220	6,340	18.35	20.85
Total	116,940	118,235	−1,295	18,645	18,067	15.94	15.28

Month	Offers						
	Purchases	Sales	Net trade [1]	Made good		Percentage made good	
				Purchases	Sales	Purchases	Sales
	Thousand bushels	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Thousand bushels*	*Percent*	*Percent*
January	2,860	4,130	−1,270	1,200	2,065	41.96	50.00
February	5,615	3,025	+2,590	540	840	9.62	27.77
March	6,445	5,370	+1,075	775	730	12.02	13.59
April	3,520	3,145	+375	665	405	18.89	12.88
May	7,275	13,125	−5,850	3,430	5,085	47.15	38.74
June	3,740	12,900	−9,160	300	1,635	8.02	12.67
July	9,090	12,150	−3,060	415	1,655	4.57	13.62
August	18,995	14,385	+4,610	3,105	2,090	16.35	14.53
September	8,005	15,300	−7,295	420	1,175	5.25	7.68
October	8,945	13,210	−4,265	235	1,480	2.63	11.20
Total	74,490	96,740	−22,250	11,085	17,160	14.88	17.74

[1] Plus sign indicates net purchase; minus sign, net sale.

THE DISTANCE PRIVILEGES SELL FROM THE CLOSING PRICES OF FUTURES

The price of the daily privilege is determined with reference to the price of the future at the close of the market. The spread between the price of the privilege and the closing price of the future is spoken of as the distance the bid or offer sold from the close.

Comparing the prices of the daily bids and offers in the May and December wheat futures sold on the Chicago Board of Trade during the years 1926 to 1930 with the closing prices of the futures, it was found that during approximately 75 percent of the time bids and offers sold at a distance from the close of from 1 to 2 cents. On only about 25 percent of the days were the spreads 2 cents or more. Similar percentages would no doubt be obtained for the March, July, and September futures.

For individual years and futures the percentages varied. The percentage of spreads of 2 cents or more is larger in some years than in others. For example, the bids and offers traded in during the year 1926, the latter part of 1929, and the year 1930 were frequently 2 cents or more from the close. During the life of the future the delivery month will usually show the widest range in the distance that privileges sell from the close. As can be seen in table 6, during 21 of the 40 instances, or 52 percent of the time, privileges sold as much as 4 cents or more away from the closing price of the future during the delivery month. A further examination of the data will also reveal that in 11 of the 20 delivery months quotations on offers were the farthest away, thus suggesting that sharp advances in the price of the Chicago wheat futures were anticipated during these months and particularly on the last few days of the month when most of the larger spreads occurred. How much trading is done in privileges at so great a spread is not known. One can assume, however, that the volume of such trading is small.

TABLE 6.—*Maximum distances that prices of daily bids and offers in Chicago wheat futures were from the daily closing price of the future, during the respective delivery months, for the years 1926 to 1930*

(In cents per bushel)

Future	1926		1927		1928		1929		1930	
	Bids	Offers	Bids	Offers	Bids	Offers	Bids	Offers	Bids	Offers
May	10½–16½	8½–13½	10¾–11½	21½–31¼	6½–8½	5¾–8¼	2⅝–2¾	4⅜	5⅜–5½	3⅜–3½
July	4¼– 7⅞	3½– 6¼	3⅞– 5¼	5¾– 6⅝	3⅝	3⅝	6⅜	8⅛	2⅝–3¾	1¾–3⅝
September	3⅝– 4½	10 –11⅞	2¾	1⅞– 2	2¼–3	4¼–4¾	2¼	2½	1¼	3⅞–4½
December	4⅝– 6½	10½–12⅜	½– ⅝	4⅝– 4¾	3 –3¼	¾–1¾	3¼	2⅛–2¼	¾	½–1¼

NOTE.—Above data are based on prices actually paid for daily bids and offers, as recorded by the Chicago Board of Trade, with "bid" and "asked" quotations excluded.

FACTORS DETERMINING THE DISTANCE THAT PRIVILEGES SELL AWAY FROM THE CLOSE

As stated in the preceding section, the distance that bids and offers sell away from the closing price of the future is, most of the time, less than 2 cents. Sometimes, as during the delivery months, the spread is greater. It was thought that possibly the size of the spread, i.e., the difference between the closing price of the future and the price of the privilege, was related either to the range in the price of the future on the day the privilege was traded in or to the anticipated range for the following day. An analysis of the figures compiled, however, shows that there is very little, if any, relationship between the distance that the privilege sells away from the close and the price range of the future on the day the privilege is traded in or on the following day. In the former case, the correlation coefficient for the 1926 Chicago September wheat future is +0.458 and for the 1926 December future +0.259. For the latter, in which the spread between the privilege and the future is compared with the price range of the future on the following day, the coefficients are, for the same futures, +0.224 and +0.337, respectively. As no relationship is shown between the daily range and the distance the privilege sold away from the close, it was thought that probably the change in the

price of the future, comparing the close of one day with that of the previous day, might have had an influence. It was found, however, that this price change was not a factor in determining the distance privileges sold from the closing price of the future.

The factors which determine the size of the spread are these: The supply and demand for privileges, i.e., the willingness of traders to sell or buy rights; the length of time the privilege has to run, i.e., daily or weekly; whether or not the privilege happens to be in a future which already is in its delivery month, as for example, a privilege bought in July wheat during the month of July; the past trend of price movements over a period of time; and the present state of the market, i.e., the outlook for advancing or declining prices. Indications are that traders are largely influenced by recent movements in prices of futures. If the price trend has been downward for a number of days the trade are apt to continue to be bearish and if, on the other hand, prices have been advancing, they are inclined to look for a further advance until something upsets the trend and starts it in the opposite direction. One will find that when the trend is downward bids will sell farther away from the close, whereas with an upward trend, offers will sell at a greater distance from the closing price of the future. Trading in privileges takes place during the last half hour of trading in the cotton and stock markets. Should any wide fluctuation occur in either of those markets during that 30 minutes of trading it is apt to influence the prices at which privileges in grain are sold on the Chicago Board of Trade. Another element which affects the demand for privileges is the amount for which privileges were good at the close of the futures market. For instance, if offers were good for $1\frac{1}{2}$ cents at the close of the market, bids will most likely sell farther away from the day's closing price than would otherwise be the case because of the demand for them by traders who called the offers earlier in the day but did not wish to advance margin money to protect the commission house against any change in the price of futures the following day.

THE PRIVILEGE MARKET AS A FORECASTER OF DAILY PRICE MOVEMENTS OF FUTURES

The distance that daily bids or offers sell away from the closing price of the future indicates whether trade sentiment is principally bullish or bearish as to the next day's price movement. If bids sell farther away from the closing price of the future than do the offers, it is presumed that the predominant trade sentiment is that prices of futures are more likely to decline than advance the following day. On the other hand, if the offers sell farther away from the close, an advance in price is anticipated.

Whether the predominating trade sentiment was right or wrong was determined in the following manner:

If the average of the prices of the bids was farther away from the close of the future than that of the offers, the trade was considered to be principally bearish. If the closing price, or average of the closing range, of the future the next day was lower than that of the previous day the privilege market was considered to have forecast correctly the change that took place. On the other hand, if the offers sold farther away, and the price of the future showed a decline at the close, the privilege market was wrong in its prediction. Conversely,

if the bids sold farther away, and the price of the future closed higher the next day, the prevailing sentiment of the trade was held to be wrong. On days when the average of the bid prices was the same distance from the close as the average of the offers, it was assumed that trade sentiment was about equally divided as to whether prices would advance or decline the next day, and, therefore, that no advance or decline in the price of the future was predicted, and such instances were not included in the analysis.

From an analysis of the March, May, July, September, and December Chicago wheat futures traded in during the period of January 14, 1926, to December 31, 1930, it appears that the privilege market was right 63 percent of the time in forecasting whether or not the trend as indicated by the average closing price of the future would be higher or lower the following day, as shown in table 7. This 5-year average is based on 3,784 instances, comprising 5 major futures combined, when both bids and offers were traded in on the same day, and the privilege market forecast higher or lower prices. There were 299 other instances when no forecast was indicated.

TABLE 7.—*Number of days and percentage of time that the privilege market was right or wrong in forecasting higher or lower prices of wheat futures the following day on the Chicago Board of Trade during the period of Jan. 14, 1926, to Dec. 31, 1930*

Future	Days on which the privilege market forecast—					Days on which the forecasts were—		Percentage of time—	
	An advance	A decline	Total	No forecast	Grand total	Right	Wrong	Right	Wrong
	Number	*Number*	*Number*	*Number*	*Number*	*Number*	*Number*	*Percent*	*Percent*
March	254	176	430	39	469	272	158	63.26	36.74
May	502	431	933	62	995	567	366	60.77	39.23
July	440	381	821	75	896	511	310	62.24	37.76
September	406	364	770	65	835	492	278	63.90	36.10
December	477	353	830	58	888	543	287	65.42	34.58
Total	2,079	1,705	3,784	299	4,083	2,385	1,399	63.03	36.97

For the individual futures, however, the percentage of instances when the forecasts were correct ranged from 49 to 71 percent. The poorest showing was made for the 1927 wheat futures for which the average of the 4 major futures was 57 percent. The best results were obtained for the 1930 futures for which the percentage of correctness was 68, as can be seen in table 8.

TABLE 8.—*Percentage of time that the privilege market was correct in forecasting higher or lower prices of Chicago wheat futures the following day, by futures, during the period Jan. 14, 1926, to Dec. 31, 1930*

March future	Percent	May future	Percent	July future	Percent	September future	Percent	December future	Percent	Average of all futures
1926	--------	1926	61	1926	63	1926	60	1926	62	61
1927	--------	1927	49	1927	52	1927	63	1927	62	57
1928	63	1928	64	1928	62	1928	66	1928	64	64
1929	62	1929	67	1929	66	1929	60	1929	66	64
1930	64	1930	65	1930	70	1930	70	1930	71	68
5-year average	[1] 63	--------	61	--------	62	--------	64	--------	65	63

[1] 3-year average.

The results secured show that approximately 63 percent of the time the daily privilege market correctly forecast an advance or decline in the closing prices the following day. The fact that the privilege market was right but 63 percent of the time suggests that there are factors which have an influence on prices of futures the following day which have not been taken into consideration or whose influence was underrated by the traders in privileges. It may also be that traders were influenced too much by price movements just experienced. The relatively poor showing with respect to forecasting price movements may also have been due in part to the inability of many of the traders, at the time the privileges were traded in, properly to evaluate the effect of anticipated changes in fundamental conditions. Some of the factors influencing prices of futures, however, may not be foreseen as, for example, unexpected changes in the weather, heavy concentrated trading on the part of one or more speculators which was not anticipated, or a sudden increase in export demand.

A study made of some of the instances when the privilege market failed to forecast correctly price movements the following day indicates that when prices have been declining speculators are apt to anticipate a further decline and conversely, when the trend has been upward, they believe prices will advance still further. In other words, they cannot foresee when changes in the trend will take place.

THE FORECASTING ABILITY OF 13 LARGE SPECULATORS AS REVEALED BY THEIR TRADING IN PRIVILEGES

In order to ascertain how the forecasts of the privilege market, as a whole, compared with those of the larger speculators, figures were compiled showing the number of instances when the price of the privilege bought or sold by the large trader came within the closing price range of the future the following day. If the price of the privilege came within the closing price range the next day the trader was rated correct in his forecast if he were the buyer and wrong if he were the seller. The latter, when he sold the privilege, was assumed to have forecast that the price of the future would not reach the privilege price the following day. There are times, however, when the seller of a privilege may wish to increase or liquidate his existing open commitments by means of bids or offers, and in order to do so he may attempt to force the price of the future through the price of the privilege so that the privilege he has sold will be exercised by the buyer. In this manner he may operate under cover and at times accumulate or dispose of part of his line at more favorable prices than would be the case if h s heavy trading went through the pit. In the absence of knowledge as to his motive, such cases have been treated on the same basis as the others, namely, that when the privilege was sold the seller was of the opin:on that it would not be exercised by the purchaser.

The figures for 13 of the larger speculators given in table 9 show that the 7 sellers of privileges were right most of the time in their implied forecasts, and the 6 buyers were wrong. The range of percentage of correct forecasts for the 7 sellers of privileges ran from 62 to 84, with an average of 73 percent for the group. For the 6

Table 9.—*The number and percentage of instances that each of 13 large speculators was right and wrong, respectively, in forecasting higher or lower closing prices of Chicago futures for the day following the buying or selling of privileges, during the period of Jan. 3 to Oct. 31, 1927*

Speculator	Grain traded in	Principal nature of privilege trading	Bids				Offers				Total for bids and offers combined		Total	Total	
			Right		Wrong		Right		Wrong		Right	Wrong		Right	Wrong
			Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Number*	*Number*	*Percent*	*Percent*
1	Corn	Selling	13.0	65	7.0	35	12.0	60	8.0	40	25.0	15.0	40	62	38
7	Wheat	Selling	94.8	86	15.2	14	14.0	74	5.0	26	108.8	20.2	129	84	16
17	Wheat	Selling	48.0	75	16.0	25	33.0	72	13.0	28	81.0	29.0	110	74	26
6	Wheat	Selling	36.5	68	17.5	32	21.5	67	11.5	33	58.0	29.0	87	67	33
16	Wheat	Selling	133.1	85	22.9	15	175.8	80	43.2	20	308.9	66.1	375	82	18
25	Wheat	Selling	24.0	73	9.0	27	11.0	61	7.0	39	35.0	16.0	51	69	31
26	Wheat	Selling	104.3	68	49.7	32	91.8	73	33.2	27	196.1	82.9	279	70	30
23	Wheat	Buying	15.1	27	39.9	73	8.2	16	42.8	84	23.3	82.7	106	22	78
24	Wheat	Buying	37.7	18	168.3	82	45.6	29	111.4	71	83.3	279.7	363	23	77
32	Wheat	Buying	45.3	40	67.7	60	38.3	37	64.7	63	83.6	132.4	216	39	61
35	Wheat	Buying	34.0	20	133.0	80	41.1	22	145.9	78	75.1	278.9	354	21	79
5	Wheat	Buying	78.0	52	71.0	48	87.3	60	57.7	40	165.3	128.7	294	56	44
4	Corn	Buying	2.0	50	2.0	50	5.0	29	12.0	71	7.0	14.0	21	33	67
Average for sellers				74		26		69		31				73	27
Average for buyers				34		66		32		68				32	68

buyers the percentage of their forecasts wrong ranged from 44 to 79 with an average of 68 percent.[12]

Because the sellers of privileges in the group were right, on the average, 73 percent of the time it does not necessarily follow that they had superior market judgment and, therefore, were better forecasters of price movements, as these large sellers frequently protect the bids and offers sold by trading against them in the futures market.[13] This trading against the privileges, therefore, results in giving the large sellers of privileges credit for having been correct in their forecasts a greater number of instances than would have been the case had they not prevented prices of futures from going through the prices of the privileges.

Because sellers of privileges were right much of the time in forecasting price changes does not necessarily mean that they made a profit on their privilege transactions over a period of time. Whether or not they made a speculative profit depends on the quantity of privileges they had sold and for which they received fees, and the extent of their losses taken when the buyers exercised their right to put or call. The losses sustained by the sellers when they were wrong in their forecasts might have offset the gains made when they were right. On the other hand, the speculative profits made or the losses sustained by the buyers are dependent on the quantity of privileges exercised and the profits made on those put or called. Commissions and taxes paid must also be allowed for, and in addition the buyer has the cost of the privilege to take into consideration.

FREQUENCY WITH WHICH PRIVILEGES ARE MADE GOOD

Privileges purchased, which are good for 1 day only, may be exercised any time the next day. The general practice, however, is for commission houses to exercise privileges in behalf of their customers at the close of the market. Of course, the trader can instruct the broker that his privileges be exercised during the day if the price is reached, but in the absence of such an order they ordinarily would not be put or called except at the close. At rare intervals privileges are exercised before the close, but in such instances it is because a large trader exercises his right to put or call.

There apparently are several reasons why privileges are exercised only at the close in the absence of instructions from the customer. (1) It facilitates the handling of privileges on the part of commission houses and their brokers in that they do not have to watch the cards, showing the privileges to be exercised, throughout the session to see if the price of the future has reached that of the privileges which are to be put or called, and thereby detract their attention from the filling of orders for the purchase or sale of futures. (2) The exercising of customers' privileges earlier in the day, would give rise to complaints on the part of customers as to whether or not the "taking of

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[12] In determining the number of instances the trader was right or wrong in his forecasts, the bid and offer for each future was compared with the closing price of the future of the following day. If the bid in 1 future was not good it was designated as one instance when the purchaser thereof was wrong. If the trader bought bids in 2 futures and both were not exercisable at the close of the following day, they were counted as 2 instances. Offers not callable were counted in a like manner. If a part of the privileges bought were exercisable, and another part were not, the percent good and not good were taken into consideration. For example, if one half were good and the other half not good, the designation was 50-percent right and a like percentage wrong.

[13] Legally the privilege can be exercised any time during the time limits, but from a profit-making standpoint it is not exercised by the holder thereof unless the price of the future reaches or goes through that of the privilege.

profits" could not have been done more advantageously at some other time during the trading session. (3) The customer has an opportunity during the day to purchase or sell futures if he thinks that he can do so to better advantage than is possible by the exercising of the privilege. (4) The practice of exercising privileges at the close does not in any way nullify the customer's right to order his broker to exercise his privilege any time during the session.

FOR THE MARKET AS A WHOLE

The total amount of privileges, in terms of bushels, made good on the Chicago Board of Trade from day to day is not known as no record has so far been kept by any organization. It was found, however, that for the 5-year period of January 1926 to December 1930, daily bids in wheat on the Chicago Board of Trade, all futures included, were exercisable at a gross profit at the close of the market nearly 25 percent of the time, and offers almost 21 percent, or on the average approximately 1 day of every 4 or 5. For the individual years, the percentages varied from 20 to 28 percent in the case of bids, and 17 to 25 percent for offers as shown in tables 10 and 11. Over a longer period, however, the percentage of days that bids are exercisable at a profit probably will be the same as that for offers. That bids happened to be good more often than offers during the years 1926 to 1930 was due principally to the fact that the major price movements were more frequently downward than upward.

TABLE 10.—*The maximum and the average number, and percentage, of instances that Chicago daily bids in wheat, all futures included, were good, by years, from Jan. 14, 1926, to Dec. 31, 1930*

Item	1926	1927	1928	1929	1930	Total
Instances that daily bids, all futures included, were traded in ... number	786	811	919	962	945	4423
Maximum instances that daily bids were good when comparing the high of the bid prices on 1 day with the low of the closing price of the future on the following day ... number	156	204	253	214	263	1090
Total ... percent	19.8	25.2	27.5	22.2	27.8	24.6
Average instances that daily bids were good when comparing the average price of the bid with the average closing price of the future the next day ... number	108	145	166	152	170	741
Total ... percent	13.7	17.8	18.1	15.8	18.0	16.8

TABLE 11.—*The maximum and the average number, and percentage, of instances that Chicago daily offers in wheat, all futures included, were good, by years, from Jan. 14, 1926, to Dec. 31, 1930*

Item	1926	1927	1928	1929	1930	Total
Instances that offers, all futures included, good for 1 day were traded in ... number	787	806	907	950	942	4392
Maximum instances that daily offers were good when comparing the low of the offer prices with the high of the closing price of the future on the following day ... number	157	191	226	174	158	906
Total ... percent	19.9	23.7	24.9	18.3	16.8	20.6
Average instances that daily offers were good when comparing the average price of the offers with the average closing price of the future the next day ... number	102	129	134	106	107	578
Total ... percent	13.0	16.0	14.8	11.2	11.4	13.2

FOR THE AVERAGE INDIVIDUAL

In determining the number of instances that daily privileges were good on the Chicago Board of Trade, the high of the bids and the low of the offers were compared with the closing price of the future. As no individual trader will always have privileges bought or sold at such favorable prices, no trader can hope to have his individual privileges exercised as often as any privileges are good on the exchange. Over a period of time the prices at which an individual makes purchases or sales of privileges will tend to approximate the average of the prices for the market. Such being the case, the frequency with which he may expect his privileges to be good will be determined by the number of times the price of the future reaches the average of the range of the daily prices of bids or of offers.

Calculations based on data covering 1926 to 1930 indicate that on the average individuals trading every day would have had daily bids in wheat made good about 17 percent of the time and offers 13 percent or, in other words, privileges would have been good on the average 1 day in 6 or 7. As shown in tables 10 and 11, these figures are from 6 to 8 percent under those for the exchange as a whole, which are based on the maximum number of instances that bids were good when comparing the high of the bid prices with the low of the closing prices of the future the next day. In the case of offers the low of the offer prices was compared with the high of the closing prices of the future the following day.

PERCENTAGE OF PRIVILEGES THAT ARE EXERCISED

FOR THE MARKET AS A WHOLE

The data examined for September 1926 indicate that probably 12 to 15 percent of the daily privileges traded in on the Chicago Board of Trade are made good. During that month offers in wheat were traded in to an amount representing 98,280,000 bushels. Of that amount, offers representing 12,625,000 bushels were exercised. The latter figure is 12.8 percent of the total trading in offers. No record is available showing the quantity of bids that was traded in or exercised during that month. As the price trend of futures during September 1926 was upward, it is certain that relatively few bids would have been exercised. Over a long period, however, as many bids as offers will be exercised. As offers and bids are rarely good on the same day, it can be said, based on the data for September 1926, that for the market as a whole probably 12 to 16 percent of the privileges purchased were exercised. That the percentage indicated appears reasonable is suggested by the fact that during the 10-month period of January to October 1927, the combined percentage of bids and offers made good [14] by 29 large speculators as a group came within the range of 12 to 16 percent, and as these large traders were primarily sellers of privileges and the general public the buyers, it is logical to assume that this percentage is representative of the market as a whole.

FOR 29 LARGE SPECULATORS

The percentage of privileges in Chicago wheat futures made good for the accounts of the 29 speculators during the first 10 months of 1927 was somewhat less than that of the average for the market as a

[14] The term "made good" is here used in the sense of fulfilling the agreement.

whole for 1927. The percentage for the latter was almost 18 for bids and 16 for offers, whereas for the speculators referred to it was, averaging the privileges bought and sold, 13 percent for bids and 14 percent for offers as shown in table 12.

TABLE 12.—*Transactions in wheat and corn privileges on the Chicago Board of Trade by 29 large speculators, with the percentages made good, from Jan. 3 to Oct. 31, 1927*

	Volume traded in		Quantity made good				Combined purchases and sales made good
	Purchases	Sales	Purchases		Sales		
	Million bushels	*Million bushels*	*Million bushels*	*Percent*	*Million bushels*	*Percent*	*Percent*
Wheat:							
Bids	243	206	24	9.88	34	16.50	12.92
Offers	171	126	22	12.87	21	16.66	14.48
Total	414	332	46		55		
Corn:							
Bids	117	118	19	16.24	18	15.25	15.74
Offers	74	97	11	14.86	17	17.53	16.37
Total	191	215	30		35		
Total	605	547	76	12.56	90	16.45	14.41

For corn, the percentage of privileges made good, purchases and sales combined, for these speculators taken as a group, was around 16 for both bids and offers.

For the individual speculators comprising the group of 29 the percentage of privileges made good varied from none to 100 percent. Most of the group, however, had less than 20 percent made good as can be seen in tables 13 to 16.

TABLE 13.—*Wheat: Number of speculators in the group of 29 having various percentages of privileges made good, Chicago Board of Trade, during Jan. 3 to Oct. 31, 1927*

Percent made good	Number of speculators who—				Total number of speculators who—	
	Bought bids	Sold bids	Bought offers	Sold offers	Bought bids or offers	Sold bids or offers
None	8	5	8	5	16	10
1 to 5	1		2	1	3	1
5 to 10	4	4	1	4	5	8
10 to 15	3	5	2	6	5	11
15 to 20	1	5	2	4	3	9
20 to 25	1	5	1	2	2	7
25 to 30			2	1	2	1
30 to 35	1				1	
35 to 40			2		2	
40 to 45						
45 to 50						
50 to 55						
55 to 60		1				1
70 to 75			1		1	
75 to 80						
90 to 95				1		1
100		1	1		1	1
Total	19	26	22	24	[1] 41	[1] 50

[1] The total number of speculators is greater than 29 because most of them were both buyers and sellers of privileges and therefore are counted twice.

TABLE 14.—*Corn: Number of speculators in the group of 29 having various percentages of privileges made good, Chicago Board of Trade, during Jan. 3, to Oct. 31, 1927*

Percent made good	Number of speculators who—				Total number of speculators who—	
	Bought bids	Sold bids	Bought offers	Sold offers	Bought bids or offers	Sold bids or offers
None	10	7	6	6	16	13
1 to 5		1		3		4
5 to 10	2	4	1	2	3	6
10 to 15	5	3	3	2	8	5
15 to 20	2	6	3	7	5	13
20 to 25		1	2	1	2	2
25 to 30		2	2	1	2	3
30 to 35	2			1	1	1
35 to 40		1				1
40 to 45	1				1	
45 to 50	1		1		2	
50 to 55	1			1	1	1
55 to 60						
60 to 65		1				1
80 to 85		1				1
90 to 95				1		1
Total	23	27	18	25	[1] 41	[1] 52

[1] The total number of speculators is greater than 29 because most of them were both buyers and sellers of privileges and therefore are counted twice.

TABLE 15.—*Wheat: Volume of privileges traded in and volume made good, by 29 large speculators, Chicago Board of Trade, from Jan. 3 to Oct. 31, 1927*

Trader no.	Bids				Offers				Bids made good		Offers made good	
			Made good				Made good					
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
	Thous. bu.	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Percent*	*Percent*	*Percent*	*Percent*
7	15,850	64,695		15,145	2,865	3,540		3,235		23.41		91.38
17		10,150		1,435		7,660		1,225		14.14		15.99
1		230		230	400	400				100.00		
4	600				2,570							
5	29,775	13,300	3,855	755	17,895	17,120	2,335	2,380	12.95	5.68	13.05	13.90
6	3,795	17,070		3,645	2,845	11,540	720	1,495		21.35	25.31	12.95
9	2,960	2,745		400	1,000	2,600		195		14.57		7.50
11		6,120		940		500				15.36		
14		110										
15	5	1,750		300		3,605		250		17.14		6.93
16		17,575		1,595	150	23,625	150	2,990		9.08	100.00	12.66
18	2,055	405			7,185							
19		10,450		1,645		11,680		1,320		15.74		11.30
20	300	5										
21	2,410	1,955	230	425	1,655	2,255	1,200	425	9.54	21.74	72.51	18.84
22	900	2,890		390	1,370	10,355	340	2,505		13.49	24.82	24.19
23	16,110	1,705	1,105	200	13,405	1,005	645	225	6.86	11.73	4.81	22.39
24	84,120	4,510	9,600	885	34,545	1,380	5,215	145	11.41	19.62	15.10	10.51
25	2,390	5,565	800	1,285	1,870	2,550		250	33.47	23.09		9.80
26	1,515	13,715	40	1,795	1,695	9,355	300	1,800	2.64	13.09	17.70	19.24
27		435			100	500						
28		350				50						
29		3,900		840	1,400		500			21.54	35.71	
30	6,920	7,070	635	435	1,720	7,955	510	1,280	9.18	6.15	29.65	16.09
31	6,930	625	1,045	100	9,340	1,555	3,375	150	15.08	16.00	36.35	9.65
32	21,760	16,585	1,415	980	11,310	5,015	1,580	665	6.50	5.91	13.97	13.26
33					1,420	25						
34	1,785	235	445	140	2,750	440	65	120	24.93	59.57	2.36	27.27
35	43,240	1,925	4,635		53,430	1,045	4,625	40	10.72		8.66	3.83
Total	243,420	206,070	23,805	33,565	170,920	125,755	21,560	20,695				
Percent made good, all traders combined									9.78	16.29	12.63	16.46

TABLE 16.—*Corn: Volume of privileges traded in and volume made good, by 29 large speculators, Chicago Board of Trade, from Jan. 3 to Oct. 31, 1927*

Trader no.	Bids				Offers				Bids made good		Offers made good	
			Made good				Made good					
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
	Thous. bu.	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Thous. bu.*	*Per-cent*	*Per-cent*	*Per-cent*	*Per-cent*
7	3, 740	21, 100	-------	3, 375	-------	2, 485	-------	2, 255	-------	16. 00	-------	90. 74
17	390	1, 860	-------	-------	-------	2, 100	-------	200	-------	-------	-------	9. 52
1	5, 905	2, 910	2, 840	50	1, 645	6, 660	400	865	48. 09	1. 72	24. 32	12. 98
4	3, 000	-------	1, 500	-------	10, 355	-------	2, 405	-------	50. 00	-------	23. 23	-------
5	860	1, 350	-------	260	100	2, 505	-------	490	-------	19. 26	-------	19. 56
6	2, 415	19, 640	1, 065	3, 595	1, 985	3, 655	525	1, 200	44. 10	18. 30	26. 45	32. 83
9	1, 645	1, 570	500	350	680	4, 160	-------	100	30. 40	22. 29	-------	2. 40
10	150	3, 090	-------	200	-------	2, 770	-------	500	-------	6. 47	-------	18. 05
11	-------	5, 405	-------	400	-------	4, 690	-------	905	-------	7. 40	-------	19. 30
14	-------	755	-------	300	-------	400	-------	-------	-------	39. 74	-------	-------
15	-------	2, 550	-------	685	-------	5, 150	-------	985	-------	26. 86	-------	19. 13
16	-------	18, 170	-------	3, 055	-------	16, 840	-------	2, 535	-------	16. 81	-------	15. 05
18	150	770	-------	-------	60	-------	-------	-------	-------	-------	-------	-------
19	-------	10, 935	-------	1, 532	-------	12, 140	-------	1, 950	-------	14. 01	-------	16. 06
20	700	170	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------
21	6, 985	2, 630	1, 300	320	5, 950	3, 010	665	235	18. 61	12. 17	11. 18	7. 81
22	920	3, 660	100	1, 010	1, 300	8, 955	250	2, 325	10. 87	27. 60	19. 23	25. 96
23	17, 040	260	2, 360	210	13, 105	1, 390	1, 405	-------	13. 85	80. 77	10. 72	-------
24	51, 030	3, 335	6, 735	-------	19, 210	930	2, 905	505	13. 20	-------	15. 12	54. 30
25	110	1, 050	-------	650	1, 450	1, 550	-------	250	-------	61. 90	-------	16. 13
26	25	1, 815	-------	300	220	1, 345	20	60	-------	16. 52	9. 09	4. 46
27	-------	-------	-------	-------	-------	150	-------	-------	-------	-------	-------	-------
28	500	350	-------	-------	-------	200	-------	-------	-------	-------	-------	-------
30	1, 710	5, 950	200	1, 040	455	8, 250	225	410	11. 69	17. 48	49. 45	4. 97
31	3, 280	1, 030	435	120	2, 155	1, 995	540	290	13. 26	11. 65	25. 06	14. 54
32	9, 155	7, 120	675	580	7, 705	4, 710	895	1, 100	7. 37	8. 15	11. 62	23. 35
33	145	50	-------	-------	1, 930	450	-------	-------	-------	-------	-------	-------
34	3, 665	255	700	-------	1, 295	125	-------	-------	19. 10	-------	-------	-------
35	3, 420	455	200	35	4, 890	125	850	-------	5. 85	7. 69	17. 38	-------
Total	116, 940	118, 235	18, 610	18, 067	74, 490	96, 740	11, 085	17, 160	-------	-------	-------	-------
Percent made good, all traders combined					-------	-------	-------	-------	15. 91	15. 28	14. 88	17. 74

VOLUME OF TRANSACTIONS IN FUTURES ARISING OUT OF PRIVILEGES EXERCISED

If an offsetting trade is not made when a privilege is exercised, the purchaser of a bid and the seller of an offer either go short the future or liquidate a long commitment. On the other hand, in the absence of an offsetting trade in futures, a seller of a bid and a buyer of an offer either increase a long position or cover outstanding open future contracts when the privilege is exercised. This must be kept clearly in mind or one is apt to become confused when considering how a trader's position is changed through the exercising of privileges. It should be remembered also that it is only the buyer of the privilege who can exercise it and, therefore, only he that can receive any protection privilege trading affords.

If the trader is long futures the purchase of bids protects him against a decline below the bid price. On the other hand, if he has a short position in the market, the buying of offers protects him against an advance beyond the price of the offer. Privileges never give full protection; they only limit the loss to the difference between the price of the future and the price of the bid or offer.

When privileges are exercised by the buyer the seller of a bid must buy the future from the holder of the bid, and he must sell the future at the offer price if the buyer of the offer calls on him to do so. The buyer of the bid can, however, exercise his right to "put" regardless of whether or not the price of the future declines to or below the bid price. The holder of an offer likewise can "call" the future irrespective of whether or not the price of the future has advanced to or above the price of the offer. In practice, however, this is not done as the buyer of the bid or offer has nothing to gain thereby except the opportunity to change his position in the market under cover. From a financial standpoint he can do better by making a purchase or sale of the future through the pit. Sometimes, even though the bid or offer is good, the purchaser of the privilege does not exercise his right to put or call. A circumstance under which such would be the case is when the trader can make just as favorable or a more advantageous transaction by means of a pit trade sometime during the trading session. Another case when the privilege may not be exercised is when the price of the privilege and the future are the same. A third instance is when the commissions that would be charged the nonmember by the broker on futures trades arising out of the taking of profits on the privilege held, exceed the difference or spread between the price of the privilege and the price of the future and would thus result in a net loss. In the latter case, with some few exceptions, the privilege is exercised for the account of the commission house.

FOR THE MARKET AS A WHOLE

The percentage of future trades that arise out of privileges exercised is not known as no figures have been compiled giving the information for both bids and offers. Data, however, collected for September 1926, revealed that the volume of wheat futures on the Chicago Board of Trade, arising out of offers sold and which were called, aggregated (for the 142 clearing members) 12,625,000 bushels, or 1.34 percent of the total trading in wheat futures for the month, which amounted to 942,762,000 bushels. The price trend during September 1926 was upward, therefore offers were more frequently good than were the bids. Because of this one would expect the trades in futures arising out of bids to be considerably less than 1 percent. Therefore the combined transactions in futures arising out of both bids and offers exercised would be not over 2 percent. Taking into consideration the fact that over a long period the quantity of future trades arising out of bids made good would be equal to that due to offers exercised, one can say that of the total volume of trading in wheat futures on the Chicago Board of Trade probably 2 percent of the purchases and a like percentage of the sales arose out of privileges exercised. This percentage of course would vary with individual days, months, and years, depending on the extent to which prices fluctuated and the amount of trading that was done in privileges.

FOR THE ACCOUNTS OF THE 29 LARGE SPECULATORS

Large speculators many times make transactions in futures which arise out of privileges exercised either by them or by others. Some

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idea of the magnitude of these transactions during 1927 was secured from a study of the privilege trading of the 29 large traders. During the first 10 months of that year the quantity of Chicago wheat futures purchased by them collectively, through bids and offers made good, aggregated 55,125,000 bushels, and sales aggregated 44,500,000 bushels as shown in table 17. These transactions represented 7 percent of their total combined purchases, and nearly 6 percent of their sales, of wheat futures. In corn, as shown in table 18, their aggregate purchases, originating out of bids and offers made good, totaled 29,152,000 bushels and the sales, 35,770,000 which constituted approximately 6 percent of their total purchases and 8 percent of their total sales.

TABLE 17.—*Wheat: Volume of future trading of each of 29 large speculators and the volume that arose out of privileges, Chicago Board of Trade, from Jan. 3 to Oct. 31, 1927*

Trader no.	Total volume of future trading		Volume of future trading arising out of privileges			
	Purchases	Sales	Purchases		Sales	
	Thousand bushels	*Thousand bushels*	*Thousand bushels*	*Percent of total purchases*	*Thousand bushels*	*Percent of total sales*
7	43, 405	43, 785	16, 520	38. 06	4, 110	9. 39
17	1, 235	1, 450	60	4. 86	350	24. 11
1	4, 430	4, 430	230	5. 19		
4	14, 400	17, 600				
5	108, 550	107, 240	3, 090	2. 85	6, 235	5. 81
6	51, 320	55, 149	4, 365	8. 51	1, 495	2. 71
9	37, 560	38, 060	400	1. 06	195	. 51
11	4, 225	4, 425	940	22. 25		
14	3, 735	3, 835				
15	2, 510	2, 760	300	11. 95	250	9. 06
16	10, 800	11, 305	1, 745	16. 16	2, 990	26. 45
18	45, 325	46, 225				
19	4, 340	4, 235	1, 645	37. 90	1, 320	31. 17
20	8, 505	8, 505				
21	6, 980	7, 080	1, 625	23. 28	655	9. 25
22	22, 040	21, 990	730	3. 31	2, 505	11. 39
23	49, 475	48, 215	845	1. 71	1, 330	2. 76
24	76, 185	75, 295	6, 100	8. 01	9, 745	12. 94
25	17, 465	16, 975	1, 285	7. 36	1, 050	6. 19
26	74, 555	74, 797	2, 095	2. 81	1, 840	2. 46
27	3, 625	3, 700				
28	780	780				
29	6, 670	6, 310	1, 340	20. 09		
30	14, 360	15, 230	945	6. 58	1, 915	12. 57
31	10, 665	10, 785	3, 475	32. 58	1, 195	11. 08
32	68, 470	68, 290	2, 560	3. 74	2, 080	3. 05
33 [1]						
34	13, 950	13, 970	205	1. 47	565	4. 04
35	68, 805	68, 975	4, 625	6. 72	4, 675	6. 72
Total	774, 365	781, 396	55, 125	7. 12	44, 500	5. 69

[1] Trader no. 33 traded in privileges but none was made good, and he had no transactions in wheat futures.

TABLE 18.—*Corn: Volume of future trading of each of 29 large speculators and the volume that arose out of privileges, Chicago Board of Trade, from Jan. 3 to Oct. 31, 1927*

Trader no.	Total volume of future trading		Volume of future trading arising out of privileges			
	Purchases	Sales	Purchases		Sales	
	Thousand bushels	*Thousand bushels*	*Thousand bushels*	*Percent of total purchases*	*Thousand bushels*	*Percent of total sales*
7	29, 797	29, 140	3, 375	11. 33	2, 455	8. 27
17	75	530		(1)		(1)
1	25, 560	29, 560	450	1. 76	3, 705	12. 53
4	14, 605	14, 605	2, 405	16. 47	1, 500	10. 27
5	3, 010	3, 010	260	8. 64	490	16. 28
6	30, 305	26, 875	4, 120	13. 60	2, 265	8. 43
9	50, 705	49, 770	350	. 69	600	1. 21
10	6, 715	7, 115	200	2. 98	500	7. 03
11	15, 555	15, 455	400	2. 57	905	5. 86
14	5, 680	5, 750	300	5. 28		
15	6, 545	6, 545	685	10. 47	985	15. 05
16	20, 220	20, 035	3, 055	15. 11	2, 535	12. 65
18	535	375				
19	5, 260	5, 005	1, 532	29. 13	1, 950	38. 96
20	11, 215	11, 215				
21	16, 840	16, 640	985	5. 85	1, 535	9. 22
22	19, 565	19, 465	1, 260	6. 44	2, 425	12. 46
23	50, 730	50, 535	1, 615	3. 18	2, 360	4. 67
24	47, 540	48, 495	2, 905	6. 11	7, 240	14. 93
25	6, 110	6, 110	650	10. 64	250	4. 09
26	11, 522	11, 654	320	2. 78	60	. 51
27	2, 555	2, 555				
28	1, 150	1, 150				
30	5, 355	4, 285	1, 265	23. 62	610	14. 24
31	5, 085	5, 245	660	12. 98	725	13. 82
32	44, 005	43, 730	1, 475	3. 35	1, 775	4. 06
33	2, 280	2, 285				
34	5, 930	5, 930			700	11. 80
35	7, 905	7, 905	885	11. 20	200	2. 53
Total	452, 354	450, 969	29, 152	6. 44	35, 770	7. 93

[1] Transactions in futures arising out of privileges for trader no. 17 were transferred to the account of trader no. 7.

The percentages of trading in wheat and corn futures arising out of privileges for the individual speculators making up this group of 29 show considerable variation, running from less than 1 to as high as 39 percent. For most of these traders, however, the percentage was less than 20.

The quantity of purchases in Chicago wheat futures that arose out of privileges for the individual accounts of the 29 speculators during the period of January to October 1927, ranged from 60,000 to 16,520,000 bushels with 13 of the traders having purchases totaling over 1,000,000 bushels. The sales ranged from 195,000 to 9,745,000 bushels with 14 of the traders having amounts aggregating over 1,000,000 bushels. For corn the purchases ranged from 200,000 to 4,120,000 bushels, with 10 traders having bought over 1,000,000 bushels. The aggregate sales in corn futures varied from 60,000 to 7,240,000 bushels with 11 having sold through privileges 1,000,000 bushels. These figures taken from tables 17 and 18 disclose the extensive use made of privileges by the larger speculators in acquiring and disposing of open commitments in Chicago wheat and corn futures.

The percentage of an operator's transactions in futures, arising from privileges made good, of course varies from time to time. There are periods when a considerable part of a speculator's transactions in futures arise out of privileges, whereas at other times he may use them but very little for building up or disposing of lines.

SPREADS AT WHICH PRIVILEGES WERE GOOD

The amount in cents per bushel for which a privilege is good (termed the "spread") is determined by the difference between the price of the privilege and the price of the future at the time the privilege is exercisable. In other words, the spread represents the gross profit available through the exercising of the privilege and the making of an offsetting future trade through the pit.

When the average price of the daily bids and the average price of the daily offers were compared with the average closing price of the wheat future on the day the privilege was exercisable, it was found that in more than 50 percent of the instances, covering the 5-year period of 1926 to 1930, the spreads for both bids and offers were not more than three eighths of a cent. With the exception of 1929 in the case of bids, and of 1926 and 1929 in the case of offers, the spread in more than 50 percent of the instances during each of the 5 years was not more than three eighths of a cent, as shown in table 19. During the 5-year period, with respect to 79 percent of the bids that were good, and 75 percent of the offers that were good, the spread was less than 1 cent.

Measuring the spreads by the method indicated, it was found that the maximum was less than 5 cents per bushel. In table 19, these spreads have been grouped according to size, showing the number of instances for each class. It will be seen that there are very few instances of a spread of more than 1½ cents.

TABLE 19.—*Number of instances that bids and offers in wheat futures were good for specified amounts, Chicago Board of Trade, by years, from Jan. 14, 1926, to Dec. 31, 1930* [1]

Spread in cents per bushel	Bids						Offers					
	1926	1927	1928	1929	1930	Total	1926	1927	1928	1929	1930	Total
None	12	20	34	13	14	93	9	18	22	13	15	77
1/16	19	21	22	13	26	101	16	20	27	12	12	87
1/8	9	9	15	8	10	51	7	8	9	6	10	40
3/16	7	18	10	8	14	57	6	15	4	2	8	35
1/4	2	8	15	1	5	31	6	3	9	2	4	24
5/16	5	4	5	10	9	33	3	4	7	4	4	22
3/8	8	6	3	7	8	32	------	4	3	2	4	13
7/16	4	5	2	5	7	23	3	2	1	2	7	15
1/2	3	7	9	4	9	32	3	9	------	2	3	17
9/16	1	6	5	4	10	26	6	4	3	1	4	18
5/8	6	2	3	8	3	22	7	1	6	1	2	17
11/16	4	7	3	1	5	20	2	2	3	3	4	14
3/4	1	2	6	2	3	14	1	3	5	2	4	15
13/16	1	3	2	6	4	16	1	4	5	5	3	18
7/8	2	4	1	4	8	19	2	1	2	4	2	11
15/16	1	2	5	3	4	15	1	3	2	1	2	9
1	------	2	4	------	2	8	2	6	4	3	------	15
1 1/16	1	4	2	4	2	13	2	3	2	1	1	9
1 1/8	------	2	1	3	3	9	1	3	2	3	2	11
1 3/16	3	------	1	3	1	8	5	2	3	------	1	11
1 1/4	1	1	------	3	2	7	5	2	1	1	1	10
1 5/16	3	------	1	3	4	11	2	------	------	3	1	6
1 3/8	1	1	------	1	------	3	------	------	------	2	2	4
1 7/16	------	3	2	5	------	10	1	2	1	2	------	6
1 1/2	2	2	3	4	------	11	------	1	2	3	------	6
1 9/16	------	1	1	1	1	4	------	------	------	------	------	------
1 5/8	1	------	------	1	------	2	2	1	1	1	2	7
1 11/16	------	1	------	1	1	3	------	1	------	1	2	4
1 3/4	2	------	------	2	------	4	------	------	1	1	------	2
1 13/16	------	1	1	2	3	7	1	------	------	1	------	2
1 7/8	------	------	------	------	1	1	1	------	------	------	1	2
1 15/16	1	------	------	------	2	3	------	1	------	------	------	1
2	------	------	------	------	2	2	1	------	------	------	1	2

[1] The futures included are March, May, July, September, and December.

TABLE 19.—*Number of instances that bids and offers in wheat futures were good for specified amounts, Chicago Board of Trade, by years, from Jan. 14, 1926, to Dec. 31, 1930*—Continued

Spread in cents per bushel	Bids						Offers					
	1926	1927	1928	1929	1930	Total	1926	1927	1928	1929	1930	Total
2 1/16				1		1	1			1	2	4
2 1/8			2	2		4	1	2				3
2 3/16	1			1	2	4		1		1		2
2 1/4	1		2			3				1	1	2
2 5/16				2		2				1		1
2 3/8			2			2		1		1		2
2 7/16		1		2		3				4		4
2 1/2	1				1	2				2		2
2 9/16	1					1	1		2	1		4
2 5/8	1	1		1		3				1	1	2
2 11/16			1	1	1	3				1		1
2 3/4	1					1				2		2
2 13/16		1	1		1	3						
2 7/8				2		2				2		2
2 15/16				2		2						
3	1			2	1	4			1			1
3 1/16							1				1	2
3 1/8				3		3				1		1
3 3/16				1		1		1	1	1		3
3 1/4				1		1			1			1
3 5/16			1			1		1				1
3 3/8									1			1
3 9/16				1		1						
3 3/4			1			1						
3 7/8							1			1		2
3 15/16									1			1
4										1		1
4 1/8	1					1			1			1
4 3/16									1			1
4 1/2							1					1
4 5/8					1	1						
Total	108	145	166	152	170	741	102	129	134	106	107	578
Total 3/8 cent or less	62	86	104	60	86	398	47	72	81	41	57	298
Percent: 3/8 cent or less is of total	57	59	63	39	51	54	46	56	60	39	53	52

When the various sized spreads were weighted by the number of times they occured, it was found that the weighted average by years ranged from ½ to 1 cent, approximately, with an average for the 5 years of approximately ⅝ of a cent. This held true for both bids and offers. The smallest spread during the 5-year period was in 1927, and the largest in 1929. The weighted average spread for bids was as follows: 1926, 0.62 cent; 1927, 0.46 cent; 1928, 0.49 cent; 1929, 0.92 cent; 1930, 0.60 cent; 5-year average, 0.62 cent. The weighted average spread for offers in 1926 was 0.69 cent; in 1927, 0.55 cent; in 1928, 0.59 cent; in 1929, 1.02 cents; in 1930, 0.58 cent; and the 5-year average, 0.68 cent.

FACTORS DETERMINING THE PROFITABLENESS OF TRADING IN PRIVILEGES

The factors determining the amount of profit made or loss sustained on privileges by those who buy or sell them are the following:

The forecasting ability of the trader.
The percentage of privileges bought or sold that are put or called.
The size of the profit made or loss sustained on those put or called.
The commissions and taxes paid.

Information as to the forecasting ability of individual traders has been limited to a study of the 13 large speculators discussed in a

previous section. It will be recalled that the analysis revealed the sellers of privileges were right in their forecasts about three fourths of the time and the buyers wrong to a like extent. No study has been made of the degree to which the individual small trader's forecasts were right or wrong. Information presented later, however, indicates that the average small trader will find, over a period of time, that his privilege transactions are unprofitable unless used purely for protective purposes.

With some exceptions, it can be said that it is to the financial interest of the speculative buyer of privileges to be able to exercise as many of them as he can and for the seller to make good as few as possible. The term speculative buyer does not include a person who purchases privileges purely for protection. He, of course, is not interested in having privileges become good. The speculative buyer of privileges is interested in having a large spread between the price of the privilege and the price of the future on the day when exercised so as to enhance his profit, whereas it is to the interest of the seller that the spread be small in order that his loss may be narrowed on those privileges he is required to make good.

Sometimes, however, the seller of a privilege may wish to have the privilege exercised by the buyer, and the former may even make trades which will aid in driving the price of the future through the privilege. In other words, he is willing to take an apparent loss on his privilege transactions in order to change his position in futures through privileges, as for instance, when he desires to close out a short line "under cover" by selling on a declining market. He may even sell short an additional quantity of a particular future in an effort to force the price through the bids, hoping that the holder of the privileges will exercise them, thus permitting the seller to cover a substantial quantity at a lower price than he might have to pay if his covering were done through pit purchases. In addition, he has the premium paid by the buyer for the privilege which still further reduces the cost of the futures purchased through bids. Additional illustrations will be given later in a section dealing with the acquiring and disposing of speculative lines through privileges.

The frequency with which privileges are exercised varies, also, between individuals, depending on the price at which the bid or offer is bought or sold. This factor accounts in part for the differences between individuals in the percentage of privileges exercised.

Because a nonmember of an exchange has to pay full commission, he is at a substantial disadvantage as compared with a member who does his own trading. The great advantage a member who does his own trading has over a nonmember is shown in the following tabulations. It will be seen that a nonmember buyer of bids must be able to exercise more than 88 percent of them at an average spread of three-eighths of a cent per bushel in order to make a profit, not allowing for Federal taxes on the future trades arising out of the bids made good. On the other hand, a member doing his own trading need only exercise 27 percent, not taking into consideration the Federal taxes and the clearing charge which he has to pay. This latter charge is, however, relatively small.

The percentage of purchases of daily privileges that a member and a nonmember, respectively, of the Chicago Board of Trade must exercise at specified spreads in order to make a profit follows.

A member buyer of daily bids or offers in wheat, corn, oats, or rye, doing his own trading, makes a profit, disregarding the Federal tax on offers [15] purchased, and on futures trades arising out of bids exercised, and not including clearing charges, if—

More than 80 percent are exercised at a spread of ⅛ cent per bushel.
More than 40 percent are exercised at a spread of ¼ cent per bushel.
More than 27 percent are exercised at a spread of ⅜ cent per bushel.
More than 20 percent are exercised at a spread of ½ cent per bushel.
More than 16 percent are exercised at a spread of ⅝ cent per bushel.
More than 14 percent are exercised at a spread of ¾ cent per bushel.
More than 12 percent are exercised at a spread of ⅞ cent per bushel.
More than 10 percent are exercised at a spread of 1 cent per bushel.

A nonmember buyer of daily bids or offers in wheat, corn, oats, or rye, makes a profit, disregarding the Federal tax on offers [15] purchased, and on futures trades arising out of bids exercised, if—

More than 88 percent are exercised at a spread of ⅜ cent per bushel.
More than 44 percent are exercised at a spread of ½ cent per bushel.
More than 29 percent are exercised at a spread of ⅝ cent per bushel.
More than 22 percent are exercised at a spread of ¾ cent per bushel.
More than 17 percent are exercised at a spread of ⅞ cent per bushel.
More than 14 percent are exercised at a spread of 1 cent per bushel.
More than 12 percent are exercised at a spread of 1⅛ cents per bushel.
More than 11 percent are exercised at a spread of 1¼ cents per bushel.
More than 9 percent are exercised at a spread of 1⅜ cents per bushel.
More than 8 percent are exercised at a spread of 1½ cents per bushel.

The maximum percentage of sales of daily privileges by a member and a nonmember, respectively, of the Chicago Board of Trade that may be exercised by the buyer at specified spreads with profit to the seller are shown below:

A member seller of bids or offers, doing his own trading, makes a profit, not including clearing charges, if—

100 percent are exercised at no profit to the buyer.
Less than 80 percent are exercised at a spread of ⅛ cent per bushel.
Less than 40 percent are exercised at a spread of ¼ cent per bushel.
Less than 27 percent are exercised at a spread of ⅜ cent per bushel.
Less than 20 percent are exercised at a spread of ½ cent per bushel.
Less than 16 percent are exercised at a spread of ⅝ cent per bushel.
Less than 14 percent are exercised at a spread of ¾ cent per bushel.
Less than 12 percent are exercised at a spread of ⅞ cent per bushel.
Less than 10 percent are exercised at a spread of 1 cent per bushel.
Less than 9 percent are exercised at a spread of 1⅛ cents per bushel.
Less than 8 percent are exercised at a spread of 1¼ cents per bushel.
Less than 8 percent are exercised at a spread of 1⅜ cents per bushel.
Less than 7 percent are exercised at a spread of 1½ cents per bushel.

A nonmember seller of bids or offers makes a profit, if—

Less than 36 percent are exercised at no profit to the buyer.
Less than 24 percent are exercised at a spread of ⅛ cent per bushel.
Less than 18 percent are exercised at a spread of ¼ cent per bushel.
Less than 15 percent are exercised at a spread of ⅜ cent per bushel.
Less than 12 percent are exercised at a spread of ½ cent per bushel.
Less than 11 percent are exercised at a spread of ⅝ cent per bushel.
Less than 9 percent are exercised at a spread of ¾ cent per bushel.
Less than 8 percent are exercised at a spread of ⅞ cent per bushel.
Less than 8 percent are exercised at a spread of 1 cent per bushel.
Less than 7 percent are exercised at a spread of 1⅛ cents per bushel.
Less than 6 percent are exercised at a spread of 1¼ cents per bushel.
Less than 6 percent are exercised at a spread of 1⅜ cents per bushel.
Less than 6 percent are exercised at a spread of 1½ cents per bushel.
Less than 5 percent are exercised at a spread of 1⅝ cents per bushel.

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[15] Although the seller of the offer pays the Federal tax thereon, the buyer pays to the seller an amount equal thereto.

In order for a nonmember seller of privileges to make a profit, less than 15 percent of the privileges sold must be exercised (at an average spread of three-eighths of a cent per bushel), whereas a member seller will profit if less than 27 percent of the privileges sold are exercised at such a spread. In other words, a member can have almost twice as many futures put to, or called from, him (at a ⅜-cent spread) as a nonmember before incurring a loss.

The minimum percentage of bids or offers that must be exercised by a nonmember buyer at various average spreads, in order to make a profit, exclusive of Federal taxes on offers which the seller collects[16] and on future trades arising out of bids made good, is indicated in figure 1 by the curved line *AB*. If the point representing percentage and average spread falls under or to the left of that line the nonmember buyer incurs a loss, and if above or to the right of that line he makes a profit, excluding the tax collected on offers. For example, if the percentage of instances that a nonmember speculative buyer of bids exercised his privileges was 20, and the weighted average spread at which they were made good was five-eighths of a cent per bushel, he would have lost money on his privilege trading, as the location of that point on the graph would fall to the left of the line *AB*.

Line *XY* indicates the percentage of instances at various spreads under which the percentage of privileges made good by a nonmember speculative seller of privileges must come in order to make a profit. If the percentage falls on or above that line he suffers a financial loss. To illustrate, if he has put to him, at an average spread of one-eighth of a cent per bushel, more than 24 percent of the bids or offers he has sold, he will lose money. The percentage made good must be less than 24 at that spread in order to avoid a loss.

The *OM* line is the profit and loss dividing line for member buyers and sellers of privileges. This curved line is also based on the figures contained in the tabulations on page 31. It shows, for instance, that if the member buyer of bids or offers doing his own trading is successful in exercising his privileges more than 40 percent of the time at an average spread of one-fourth of a cent, he makes a profit on them. If, on the other hand, the percentage falls below 40, the buyer sustains a loss. In the former case the seller takes the loss, and in the latter he secures the profit, the member buyer's loss being the member seller's profit.

In a previous section it has been shown that if a trader had bought bids in each of the Chicago wheat futures at an average of the high and low quotations, and had exercised them at the close every time they were good and had taken profits by making an offsetting trade when the future was "put", he would have found that over the 5-year period considered the bids would have been exercisable only 16.8 percent of the time. The amount for which they would have been good, i.e., the difference between the price of the privilege and the offsetting trade, would have averaged 0.63 cent per bushel. When plotted on figure 1, it will be found that the point representing 17 percent and 0.63 cent per bushel lies outside of the profit zone of both nonmember buyers and sellers, showing that neither of them would have made any profit. As the point falls just above the line *OM* it also reveals that the member buyer could have made a profit, disre-

[16] Although the seller of the offer pays the tax he collects it from the purchaser at the time the privilege is bought.

garding the clearing charges, in the event that he did his own trading, and the Federal tax on futures trades arising out of bids exercised.

The percentage made good, with the average spread, is shown in figure 1 for the years 1926 to 1930, with the respective years designated.

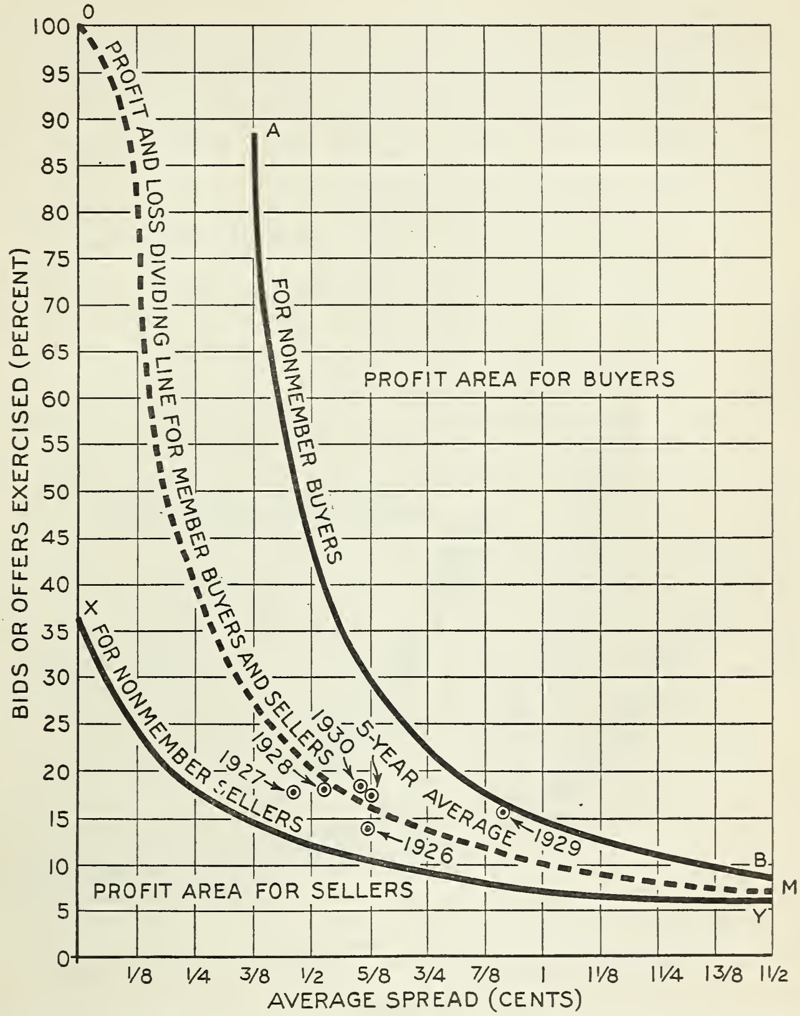

FIGURE 1.—A comparison of the percentage of bids or offers in Chicago grain futures that must be exercised at certain specified spreads by a member of the exchange doing his own trading and by a nonmember buyer or seller, in order to make a profit, disregarding clearing charges paid by an exchange member and Federal taxes on offers and on sales of futures arising out of the exercising of bids. (The dots for individual years are for bids in wheat only.)

It can be seen that with respect to the nonmember traders the points all fell within the loss areas during the 5 years, whereas for the members they came, except during 1929 and 1930, within the profit area of the seller of bids.

As to the offers in Chicago wheat during 1926 to 1930, it was found as shown in figure 2 that all points, except for 1930, came within the loss area for nonmember sellers.[17] Not one of the points fell within the profit area for nonmember buyers. The 5-year average also was

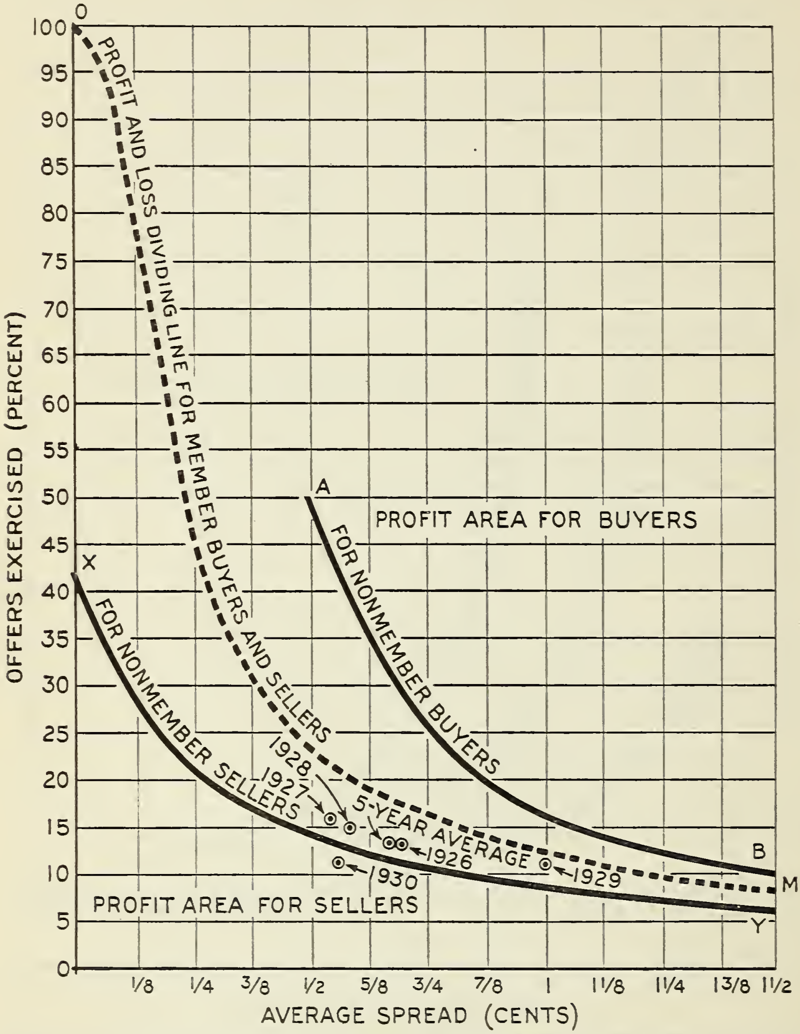

FIGURE 2.—A comparison of the percentage of offers in Chicago wheat futures necessary to have been exercised at certain specified spreads by a member of the exchange doing his own trading, and by a nonmember buyer or seller, during the period January 14, 1926, to June 21, 1932, in order to make a profit, disregarding clearing costs to the exchange member.

in the loss zone for both buyers and sellers. The apparent gain for 1930 was more than offset by the losses for the other 4 years. The data suggest that on the whole nonmembers who were persistently

[17] When the increased Federal tax became effective on June 21, 1932, the cost of the bids and offers was made the same, i.e., $5 plus $0.50 commission per 5,000 bushels. In addition to the $5 fee paid by the buyer, the seller of the offer collects from the buyer an amount exactly equal to the Federal tax, whereas previously a flat charge of $0.75 was collected for that purpose. The change makes it possible to consolidate bids and offers on one graph (fig. 1).

either buyers or sellers of privileges for speculative purposes apparently were losers in privilege transactions during the 5-year period of 1926–30.

In view of the fact that privileges in wheat at Chicago are good on the average only around 15 percent of the time, or 1 day in 6 or 7, and that in more than 50 percent of the instances when they are good the spread is not more than three eighths of a cent per bushel, and on the average only five eighths of a cent, there apparently is, with one exception, no profit in trading in privileges on the part of nonmembers of the exchange whether they are buyers or sellers. In other words, nonmembers who, over a period of time, are consistently speculative buyers or sellers lose money by trading in privileges. The one exception is where the nonmember customer has unusual foresight and is able to forecast price changes with a greater degree of accuracy than is normally the case. To show superior ability as a buyer he either must exercise a greater percentage of his privileges than the average buyer or be able to make offsetting trades which allow a profit not obtainable at the close of the trading session, and the latter at the risk of the privilege not being good at the close of the session.

The member buyer who does his own trading, and whose trades are made for the sole purpose of making profits in privileges—and who makes offsetting trades only at the close of the session—will find that he makes only a very small profit over a long period, unless he is able to exercise more than 17 percent of his privileges at an average profit of five eighths of a cent per bushel.

As stated in a previous section, bids in wheat on the Chicago Board of Trade were exercisable 17 percent of the time during the period of January 1926 to December 1930. The 5-year weighted average amount for which the bids were good at the close, if all were exercised, was five eighths of a cent per pushel. On this basis it will be found that the member buyer would have made a gross profit of only $62.50 for every million bushels traded on bids in wheat. This would not have been sufficient to pay his clearing charges and the Federal tax on the transactions in futures arising out of the bids made good.

As the profit made by the member buyer represents a loss to the seller, the member seller of the bids would have had to absorb the $62.50 loss. In addition he would have had to pay the clearing charges on the trades made by himself. Should he, however, have had another member execute the trades for him he would have had to pay half the commission that a nonmember would have paid. Had the buyer and the seller of the bids been nonmembers of the exchange they would both have suffered a loss. For the former it would have been $462.50 per million bushels and for the latter $587.50, not including taxes. Figures 3 and 4 show the comparative profits made and losses sustained, per million bushels, by nonmembers not allowing for the Federal tax, when various percentages of the bids and offers traded in are made good at specified spreads. The same information is given for members, no allowance being made for clearing charges, commissions, if any, or taxes.

As previously emphasized, the profitableness or unprofitableness of privileges as measured in this study is based on the assumption that when profitable they are always exercised at the close. The fact that a trader may have futures to apply on the privilege when exercised does not necessarily mean that the profit made or loss sustained on

the privilege is the spread or difference between the price of the privilege and that of the previously acquired future applied. Calculating the financial outcome on that basis would result in joining together profits or losses arising from both privileges and futures. For this type of transaction it is obviously impossible to measure the portion of profit or loss due solely to privileges unless the price of the future applied on the privilege is arbitrarily assumed to be that prevailing at the close on the day the privilege was exercised.

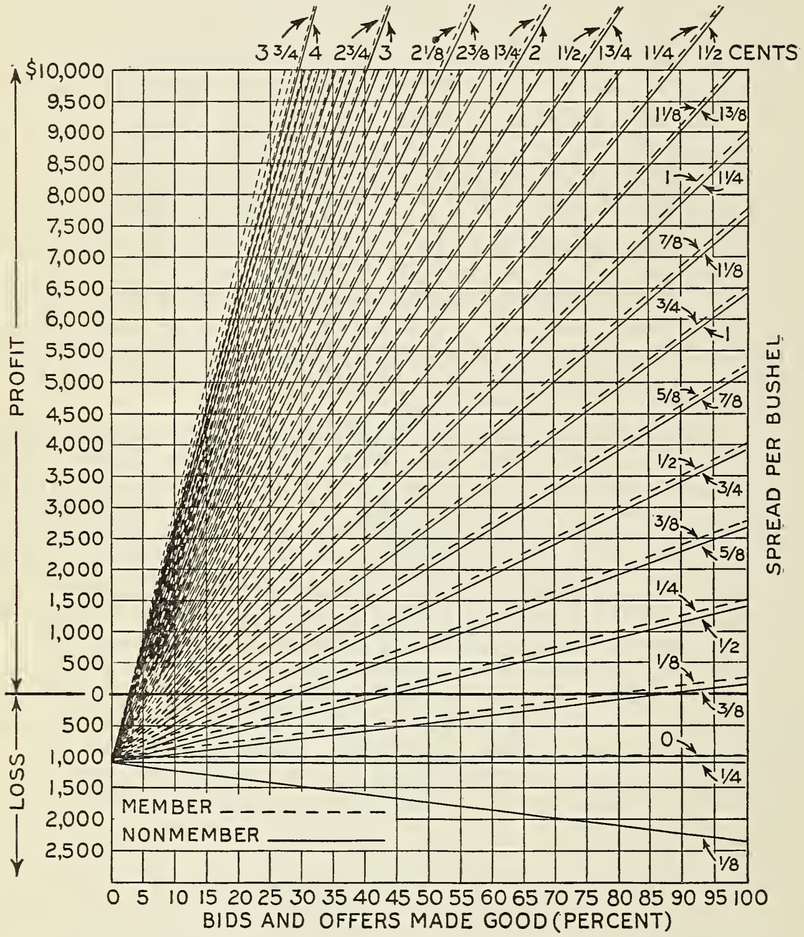

FIGURE 3.—Bids and offers bought: Gross profit or loss per million bushels purchased when specified percentages are made good at the spreads designated, for members doing their own trading and for nonmembers, disregarding clearing costs to members and Federal taxes.

At times a trader will purchase bids at a price a certain distance from the close and then sell an equivalent amount of bids at a price still farther away, thus giving him what is called a phantom profit. This potential profit is designated as "phantom" by the trade for the reason that it cannot be realized until the bids bought and sold have been exercised. Phantom profits may also exist by buying

and selling offers. There is, however, relatively little buying and selling of the same privilege by an individual for the purpose of making a profit.

Thomas Gibson (*4, pp. 94–99*) states:

> * * * The writer kept account of the transactions in "puts and calls" handled through a large concern for almost two years and found that only about 35 percent of the money paid for these privileges returned to the purchasers. That is to say, the profit shown to purchasers of "puts", "calls", and "straddles",

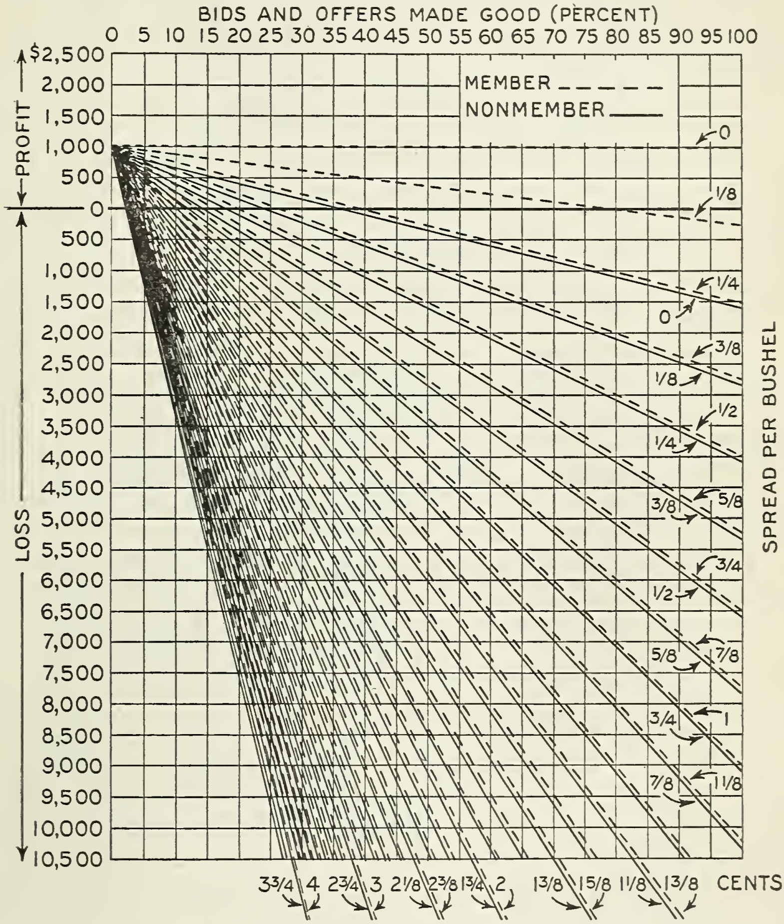

FIGURE 4.—Bids and offers sold: Gross profit or loss per million bushels sold when specified percentages are made good at the spreads designated, for members doing their own trading and for nonmembers, disregarding clearing costs to members and Federal taxes.

was only about $350 out of each $1,000 received by the sellers. After deducting the item of commission charges, it was found that the sellers of privileges reaped over 50 percent profit each year. The experiment referred to was based on grain privileges, but would probably hold good in stocks. The *sellers* of these "puts and calls" are among the brightest men in the street, and when they make prices they do so on the absolute basis that they have the best of the bargain and the buyers are usually a public element. In the test referred to, there were never three consecutive days when either "puts" or "calls" were good. There was on one occasion in the period consulted, an advance of over 20 cents a bushel in

wheat in three days, but "calls" were good only on the first day of the advance. On this occasion the "calls" were good for about 2 cents per bushel on the first day's rise, but the sellers offered nothing for the second day, except at prices far above the market, and although the market advanced 6 cents per bushel, wheat was not "called". On the third day, prices for "calls" were prohibitive, ranging from ten to twenty cents above the closing price and again wheat was not called, although the market advanced 8½ cents.

In the accounts examined, one seller of privileges on wheat had an open order to sell 100 puts and 100 calls every day at the ruling price. He thus received $200 daily and invariably "took his loss" whenever the privileges operated against him. That is to say, if wheat closed one cent per bushel above the call price, he would be called for 100,000 bushels on his privileges, making him short that amount of wheat. This he bought in at once and pocketed a loss of $1,000 less the $200 received. Although he accepted some severe losses now and then, this account showed over $30,000 profit on a year's business.

Another account was operated on a different principle by the seller of privileges and resulted in even larger profits. This individual would sell ten "puts" and ten "calls" on wheat each day. In the event of his being called, i.e., short of the wheat, he would, on the next day, sell no "calls," but 20 "puts". In the event of a decline below the "put" price, he had enough short wheat to protect ten of his "puts" and in reality automatically close out his ten thousand short, frequently at a profit. As has been stated, his profits were greater than in the first instance quoted. There was, of course, a more highly speculative element in his form of operating than in the other method, but the operator was never either long or short more than 10,000 bushels and received about $6,000 a year or 60 cents per bushel from his privileges in addition to the accruing of profit or the curtailing of loss by his mechanical method.

In the accounts examined the persistent purchasers of privileges all finally lost money, except in a few cases where lines acquired on "puts or calls" were carried to a successful conclusion in the course of time. That is, a purchaser of "calls", finding a profit in his privilege, would call the wheat and *keep* it. This, however, resolved the matter into pure speculation, as the maximum benefits derived from this form of trading can only be correctly measured by the profit shown at the expiration of the "put" or "call". That is to say, the seller need suffer no greater loss than that shown when the contract he has given matures, and consequently the profit to the buyer cannot be greater except through speculation.

It would appear from these facts, that the purchasing of privileges is a poor business proposition, while the selling of privileges is a money making affair. This is true. We need only compare the kind of men who *buy* "puts and calls" and those who sell them to have this truth made apparent. The late Russell Sage was a persistent writer of these instruments and made a great deal of money by the process. The late Edward Partridge also made a good deal of money in this manner in the Chicago Wheat Market. He also used privileges to aid his manipulative campaigns. On several occasions, he sold "calls" heavily through the day, then suddenly bid wheat up just at the close of the market, effecting a closing just above the call price. The scattered purchasers would call the wheat and put Mr. Partridge short several millions at a high price, which was just what he wanted. He could not have sold as much wheat in the open market without breaking the price several cents. On the same principle, he used sometimes to sell a great many "puts" when he wished to cover a line of short wheat and rush the price downward at the close, thus enabling him to purchase a great line without disturbing the market by bidding for it. The process only worked a few times, however. As soon as it was discovered it failed, as the call price, when reached met with such a wave of selling that it was impossible to break through it, and the manipulator was "hoist with his own petard."

There is another drawback to the habit of buying privileges—a mental one. They are frequently made the basis of positive trading with disastrous results. The man who believes in an advance in certain shares or commodities, frequently purchases privileges instead of following out his own convictions by actual trading. Thus the man who had good reasons for expecting an advance in wheat at the time of the 20-cent advance mentioned above, and who used either "puts" or "calls" or both, as a means of operating on his opinions, would have reaped less than two cents a bushel during an advance of twenty cents. He might, of course, have called the wheat on the first day of the advance and remained long, but in that case he would merely have been speculating with equal chance of loss or profit in ensuing transactions. Aside from the initial two cent gain, he

would have been in no different position than if he had purchased and held the cereal on margin.

It is the writer's opinion, founded on the experience set forth above, that it is much better to effect transactions in the ordinary manner, than to depend on privileges. If "puts" and "calls" are dealt in at all, they should be sold, not purchased. The insurance companies make more money than is paid out in losses; so do the sellers of privileges. It may be well to add, however, that the man who runs an insurance company is in danger if he does not understand his business and his risks, or if he enters the field without sufficient capital to provide for possible initial losses. All this applies to the seller of privileges.

USES MADE OF PRIVILEGES

Broadly summarized, the uses made of privileges are the following: They afford protection by limiting losses due to changes in the prices of futures. They make possible the financing of speculation in futures on less capital. They are a source of income to those who sell them to earn the premiums. They also supply supplementary revenue to brokers in addition to regular commissions charged on privileges, in that customers' privileges are frequently exercised for the commission house's own account. The privilege price is used by some traders as the point around which their transactions in futures center the next day. Privileges provide a means of accumulating or closing out speculative lines. They are also said to have a stabilizing influence on the price of futures.

AFFORD PROTECTION BY LIMITING LOSSES DUE TO CHANGES IN THE PRICE OF FUTURES

Bids and offers furnish protection only to those who buy them as they alone have the right to exercise them. A bid may be used to protect an individual who is long the future or actual grain, against a decline in price. An offer can provide protection to a person who has short contracts open in grain futures or has sold cash grain which he still has to purchase.

The following illustrations show how privileges may be used for protective purposes:

EXAMPLE 1. A TRADER LONG WHEAT FUTURES BUYS BIDS

A nonmember customer of a grain commission house is long 5,000 bushels of May wheat at $1.12. The price declines to $1.11 at the day's close. Desiring to limit a possible further loss, he buys five bids in May wheat immediately following the close of the day's session, at, say, $1.10, or 1 cent below the closing price, good until the close the following day. The bids on 5,000 cost him $5.50 ($5 plus 50 cents commission). Should the market the following day break through the bid price of $1.10 and remain below that figure until the close, he may dispose of his long wheat by "putting" it, that is, by requiring the seller of the bids to buy 5,000 bushels of May wheat from him at $1.10, thus limiting his loss to 2 cents per bushel ($1.12 less $1.10). To this loss must be added $5.50, the cost of the bids and the Federal tax on the future trade arising out of the privilege exercised. A "long" can handle his transactions to better advantage in this way than by placing a stop-loss order at $1.10, as by means of bids he has until the close of the market to put the grain, thus giving him an opportunity to profit by any advance in the mar-

ket. He also avoids the risk of having the stop-loss order executed at a price lower than $1.10.

EXAMPLE 2. A TRADER SHORT WHEAT FUTURES BUYS OFFERS

A nonmember customer of a commission house is short 5,000 bushels of May wheat at $1.11 at the close of the market. He desires protection against an advance in the market. Thus he buys five offers at $1.12, or 1 cent over the market, good until the close the next day. For this protection he pays $5 plus a commission of 50 cents, total $5.50, plus the Federal tax on offers. He pays this premium for protection for 1 day against loss in excess of 1 cent per bushel. Should the market advance above the offer price of $1.12, he can call the wheat, thereby requiring the seller to sell 5,000 bushels of May wheat to him at the offer price of $1.12. The buyer of the offer thus limits his loss to 1 cent per bushel plus the cost of the privilege, the commission, and Federal tax.

Cash-grain merchants may buy offers and at the same time sell bids. In this way the $5.50 plus the tax per 5,000 bushels paid for the offers is partially offset by the $5 per 5,000 bushels received from the sale of the bids.

EXTENT PRIVILEGES ARE USED FOR PROTECTION BY TERMINAL ELEVATORS, EXPORTERS, AND SPECULATORS

Advocates of privilege trading always contend when the economic value of privilege trading is questioned that it should be permitted because it affords protection to cash-grain interests. The extent to which privileges are used for protection is overemphasized. Privileges apparently are not purchased on the Chicago Board of Trade to any appreciable extent by the larger cash-grain dealers such as elevator concerns and exporters, as a means of protection against price changes. The Federal Trade Commission also found privileges were not used to any appreciable extent by the cash-grain trade. In its report it says (*11, vol. 7, p. 293*): "This form of trading appears never to have been used appreciably by the cash-grain trade and such a facility does not appear to be needed by hedgers."

The reason elevator concerns seldom use them is because it is too costly, and from experience they are able to estimate pretty closely each day before the close of the futures market what purchases or sales they need to hedge in order approximately to take care of business done after 1:15 p.m. Any purchases or sales made in excess of those estimated are hedged at the opening of the market on the following day.

To illustrate, a terminal elevator company knows from experience approximately how much grain it is likely to obtain on the acceptance of "to arrive" bids sent out after the close of the futures market. A hedge to cover the estimated amount is placed just before the close of the futures market. Should the amount of grain bought after the close be larger than anticipated, the excess bought is hedged at the opening of the market the next day. By this method of operation the money that would be spent for privileges is saved and over a period of time the results obtained have, it is said, proved satisfactory.

The buying of offers can be of value to the dealer in cash grain who desires to offer wheat to European buyers subject to acceptance in the

afternoon or before the opening of the market on the next succeeding business day. In the event of the acceptance of his offer being followed by strong bullish news, resulting in a sudden advance in price at the opening the following morning, he has avoided taking a loss due to overnight price changes. Whenever export sales are to be made in Canadian wheat the exporter is more likely to purchase the privilege in the Winnepeg market where Canadian wheat futures are traded in than on the Chicago exchange. There is, however, another means of protection which he may utilize which is known as a "refusal." It often happens that an exporter will receive a request to make an offer covering a specified amount of grain. Whenever he makes an offer which is termed "firm offer"[18] he can protect himself by buying a privilege or by making an arrangement with someone to supply him with the required amount of grain if his offer is accepted and to refuse, or cancel, the arrangement in case the offer is rejected. The latter is known as a "refusal." He would be quite sure to protect himself by means of a privilege or a refusal if his purchase of the grain, should the offer be accepted, be apt materially to influence market prices upward because of the large quantity involved in the transaction. Exporters, however, will frequently take the risk of an overnight price change when the quantity involved is not too large or the wheat on which the firm offer is made is not of a special type for which a sudden small demand will cause the price to advance sharply.

A study made of the trading in privileges by 29 of the larger speculators during 1927 previously referred to, revealed that they seldom used privileges as a means of protecting open commitments in futures. The majority of the 29 were primarily sellers of privileges, whereas only buyers secure protection of open commitments through privileges.

Other than as a means of financing his future trades with a minimum of capital, the extent to which the small trader uses privileges solely for protecting open commitments against price changes is not known. Privileges are, however, used by small traders in place of "stop loss" orders.

PRIVILEGES MAKE POSSIBLE THE FINANCING OF SPECULATION IN FUTURES ON LESS CAPITAL

The small speculator at times uses privileges as a means of lessening additional margin calls and thereby avoids the necessity of advancing larger sums of money to finance his open speculative commitments in futures. By the payment of $5.50 for bids covering open long commitments representing 5,000 bushels, the customer is protected for 1 day against a decline in price below the price of the bid, and the brokerage house also is protected without calling for additional margin. By the buying of an offer for $5.50 plus the Federal tax, the trader is protected, should he have a short position in the market, against an advance in price beyond the price of the offer. Should the privilege not be exercised, the customer may buy another privilege for the next day's protection or be subject to margin call should the price advance. From the data analyzed, and previously presented, it appears that, over a period, the buying of privileges is a costly method of protecting open trades.

[18] A firm offer is one in which the seller gives the buyer the privilege of acceptance within a limited time.

PREMIUMS ON PRIVILEGES ARE A SOURCE OF INCOME TO SELLERS

Many sellers expect that over a period of time the losses they sustain in making good the privileges exercised will absorb only two thirds of the fees received by them, thus leaving one third as profit. This expectation is based on trade tradition rather than on conclusions derived from the keeping of records of transactions actually made.

PRIVILEGES FURNISH REVENUE TO BROKERS IN ADDITION TO COMMISSIONS

The small trader in privileges is, as a rule, not much interested in using privileges as a means of acquiring or disposing of open commitments in grain futures as is frequently done by the larger speculators. His primary purpose is to secure profits on his privilege transactions or use them in lieu of margin money to protect the speculative commitments in futures which he has already made. Because of this the custom is, in the absence of instructions to the contrary, to take profits, if any, on his privilege transactions. In taking profits for the customer, the broker exercises the privilege for him. In doing so he either acquires or gives up, depending on whether it is a bid or offer, future contracts to the extent of the privilege exercised. Before putting or calling the future he makes an offsetting future trade which results in the customer's not having changed his position in the market. The difference between the price of the bid or offer and the offsetting trade is the gross profit accruing to the account of the customer. From this is deducted the commission due the broker on the future trade arising out of the privilege exercised. Whenever the gross profit is one-fourth of a cent or less per bushel, the commission charges, plus the Federal tax on the futures trade arising out of the privilege exercised, exceed the gross profit with the result that the nonmember customer has a loss in his privilege transaction. Whenever such is the case the general practice among the commission houses is to take the trade into their own account. This gives them a gross profit of one-eighth to one-fourth of a cent per bushel in addition to the regular commission received on the privilege from the customer. The brokerage house, however, must pay a small commission to the broker in the pit and pay the Government tax on the future trade arising out of the bid made good.

PRIVILEGE PRICE USED BY SOME TRADERS AS A POINT AROUND WHICH THEIR TRANSACTIONS IN FUTURES MAY CENTER THE NEXT DAY

A number of the larger traders use the prices at which they bought or sold privileges as a guide to their trading operations in futures on the following day. Knowing the prices at which the privileges were bought or sold, their activity in futures centers around those prices, which serve as pivots. For example, to the holder of privileges, the bids or offers represent potential trades in futures, in other words, bids may result in sales of futures, and offers in purchases of futures. Offsetting trades are made accordingly. To illustrate: Trader A buys bids representing 50,000 bushels of July wheat at 75 cents, or 1 cent below the close. Let us assume that the next day the market opens at 75⅞ cents. Then the price of the future declines to 74½ cents, and later it advances to 75½ cents with the close at 74¾ cents. Anticipating a decline in price he may sell 25,000 bushels of July

wheat at 75½ cents and another 25,000 at 75¼ cents. When the future reaches the bid price he may cover 25,000, and when it reaches 74½ cents, cover the other 25,000 bushels. Expecting a reaction he may purchase a third 25,000 bushels at 74½ cents. Believing that the price will advance further, he buys an additional 25,000 bushels when the price reaches 74⅝ cents, and at 75½ cents he sells 25,000 bushels, and on the decline at the close to 74¾ cents he "puts" the remaining 25,000 to the seller of the bids thus leaving himself without open commitments at the end of the day.

A form of trading used by professional traders is to purchase or sell, depending upon whether they are buyers or sellers of bids or offers, half the amount of the future named in the privilege when it becomes good during the trading session. The holder of a bid may buy, for example, 5,000 bushels of May wheat at the bid price or lower, should the market decline to that point. Having made the purchase he is in a favorable position to profit by any advance or further decline in price. If the price advances he makes a profit on the 5,000 bushels of May wheat purchased. Should the market price, on the other hand, decline further he can "put" the futures to the seller of the bid, as the bid which covered 10,000 bushels of May wheat protected him against a loss on the 5,000 bushels bought during the session. In addition he may buy another 5,000 bushels to apply on the bid as he has the right to "put" the entire 10,000 bushels. This type of trading carried on by holders of privileges is spoken of by the trade as "trading against privileges purchased." When a seller of bids or offers makes trades in anticipation of having wheat put to him or being called for futures, his trading is referred to as "protecting his sales of privileges."

PRIVILEGES PROVIDE A MEANS OF ACCUMULATING OR CLOSING OUT SPECULATIVE LINES

Speculators use privileges principally as a means of trading on less capital or for the purpose of accumulating or disposing of open commitments. Privileges may give them an opportunity at times to get into and out of the market at prices which may be more favorable than if they acquired their holdings through pit transactions. In addition it permits the larger speculators to acquire or dispose of their line more or less under cover, i.e., without revealing what they are doing in the market which, of course, is advantageous to them.

The selling of bids is sometimes taken advantage of by the speculator of large means when he is in a position temporarily to depress the market to a point where the privileges will be exercised by the buyers of the bids. This gives the large speculator a chance to cover his short line or increase his long line without bidding in the pit. He, of course, might fail if obliged to sell a larger volume than would be put to him at the close.

The extent to which the larger traders use privileges to get in or out of the market is indicated by the following data secured by the Grain Futures Administration: During the first 10 months of 1927 the 29 large speculators previously referred to collectively traded in Chicago wheat futures to an aggregate amount of 1,556,761,000 bushels (purchases and sales combined) of which not less than 99,625,000 bushels, or 6 percent, arose out of privileges made good. In corn futures their aggregate transactions amounted to 903,323,000 bushels of which not less than 64,922,000 bushels, or 7 percent, represented

privileges made good. For the individual traders the percentage of trades in futures arising out of privileges exercised varied considerably as was shown in tables 17 and 18. In some instances none of the trades of the individual speculators was due to privileges exercised, whereas in other cases a considerable quantity arose out of privileges. In many instances the quantity was more than 1,000,000 bushels for the 10 months, and in the case of one individual the amount exceeded 20,000,000 bushels for wheat and amounted to nearly 6,000,000 bushels for corn. The extent to which the futures arising out of privileges were used to accumulate or close out large speculative holdings is disclosed in table 20.

TABLE 20.—*Extent to which privileges were used in acquiring or disposing of long and short lines in Chicago wheat and corn futures by 22 large speculators in wheat and 22 in corn, from Jan. 3 to Oct. 31, 1927* [1]

[In thousands of bushels, i.e., 000 omitted]

Grain and privilege	Use made of futures arising out of bids and offers made good				Total amount used for—	
	Accumulating long lines	Acquiring short lines	Liquidating long lines	Covering short lines	Acquiring lines	Disposing of lines
Wheat:						
Bids	9,015	16,770	6,550	24,015	25,785	30,565
Offers	10,175	10,655	8,990	10,625	20,830	19,615
Total	19,190	27,425	15,540	34,640	46,615	50,180
Corn:						
Bids	13,100	12,490	5,995	4,777	25,590	10,772
Offers	6,165	5,150	11,750	4,905	11,315	16,655
Total	19,265	17,640	17,745	9,682	36,905	27,427
Grand total	38,455	45,065	33,285	44,322	83,520	77,607

[1] 19 of the speculators in wheat also traded in corn futures and are, therefore, included in both groups. There were also some large speculators who traded in privileges but did not have any transactions in futures arising out of privileges during the 10-month period.

The extent to which the large speculators changed their position in a single future on individual days due to future trades arising out of privileges varied from less than 100,000 bushels to as much as 2,560,000 bushels. An examination of the figures in tables 21 to 28 reveals that about 39 percent of the quantities are less than 100,000 bushels in size, and 32 percent are between 100,000 and 200,000 bushels. The remaining 29 percent are 200,000 bushels or more.

Whether privileges were used principally to accumulate or liquidate a long line or to acquire or cover a short line was determined by the net position of the trader at the beginning of the day on which the privileges were exercised and the amount of future trades that arose out of privileges. For example, if the trader were net long and his privileges, when exercised, resulted in sales of futures, he was deemed to have used the privileges to liquidate long holdings. Should his net long commitments, however, be relatively small, say 15,000 bushels, and the sales arising out of the privileges exercised be large, let us say 100,000 bushels, resulting in a short line in excess of the amount liquidated, he would be considered as using the privileges mainly for purposes of short selling. Any transactions in futures in addition to those which arose out of privileges were not taken into consideration in deciding the purpose for which privileges were used. The reasons

for ignoring these pit trades are these: (1) The privileges were purchased or sold on the previous day when the trader had a definite long or short position in the market and which position may have influenced his trading in privileges. (2) The future trades made in the pit the second day for his account may not have been connected in any way with the transactions made in privileges. The future trades may have been made before or after the privileges were exercised. They may have been made with a view to forcing the price of the future through the price of the privilege or to preventing the privileges from being made good. They may have also, partly or wholly, represented offsetting trades made when the privileges were exercised. At any rate, the motive with respect to taking or changing a position in the market was formed before the future trade was made.

ACCUMULATION OF LONG LINES OF FUTURES THROUGH PRIVILEGES

The accumulating of a long line of futures through privileges can be accomplished by either of two methods, (1) the selling of bids, or (2) the buying of offers. The accumulation of a long position through the sale of bids can be accomplished only if the bids are exercised by the buyer. Their exercise is at times brought about, in case the seller of the privilege wishes to have the future put to him, by his helping to depress the price of the future until it goes through the price of the bid as is illustrated later. The selling of the future is done when the price is near that of the bid. The advantage of forcing the price of the future through the bid price when accumulating a long line is twofold. (1) The sales of futures made through the pit may mislead pit observers, who presume to know for whose account large orders are being executed, by giving them the impression that the trader is bearish when in reality he is bullish, but operating under cover. (2) It may be possible by the use of bids for the speculator who operates on a large scale to obtain futures in large quantities at somewhat more favorable prices than if they were all purchased through the pit.

The extent that bids are used by large-scale speculators in accumulating long lines is disclosed by the figures in tables 21 and 22, which show that during the 10 months of January to October 1927, 21 of the larger speculators, taken together, accumulated, through the sale of bids, long commitments in Chicago wheat futures aggregating over 9,015,000 bushels, as compared with 10,175,000 bushels through the purchase of offers. Twenty large speculators in corn futures acquired 13,100,000 bushels through the sale of bids and 6,165,000 bushels through the purchase of offers. The degree to which bids and offers were used by different individuals comprising the group of 21 in wheat and 20 in Chicago corn futures varied considerably. Each of 8 speculators accumulated, from time to time, various amounts of Chicago wheat futures which, for the 10-month period, totaled 1,000,000 bushels or more. In Chicago corn futures 7 of them accumulated, individually, as much as 1,000,000 bushels or more. Some of them obtained 1,000,000 bushels or more in each of these two grains. Of these 2 groups the most outstanding as revealed in tables 21 and 22 were traders nos. 4, 6, 7, 24, and 31. Each of them accumulated at various times quantities of Chicago wheat or corn futures which for the 10-month period aggregated 2,000,000 bushels or more.

TABLE 21.—*Accumulating of long commitments in Chicago wheat futures through bids sold or offers bought by 21 large speculators during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity accumulated (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
1	July 28	Even	December	30			
	Aug. 19	Long 2,000	do	200		500	
Total				230			
5	Mar. 19	Long 1,180	July	50			120
	Oct. 22	Long 575	December	35		325	205
	Oct. 29	Even	do		595	665	1,305
Total				85	595		
6	Mar. 15	Even	July	245			
	Mar. 19	Long 245	do	250			
	Mar. 22	Long 495	do	250			
Total				745			
7	June 2	Long 3,700	September	925			
	June 3	Long 4,625	do	135		65	
	June 17	Long 6,525	do	500		200	
	June 23	Long 7,225	do	600			
Total				2,160			
9	July 18	Long 105	September	100			105
11	Mar. 7	Even	May	440			
	Mar. 10	do	do	100			
	June 17	do	July	200			
	June 23	do	September	200			
Total				940			
15	July 15	Even	September	100			
16	Mar. 28	do	May	15			25
	Apr. 4	do	July	25			
	Apr. 7	Long 5	do		50		
	Apr. 9	Long 55	do	25			
	May 10	Long 25	do	100	100		200
	June 2	Long 500	September	50		50	
	June 3	Long 600	do	100			
	July 11	Long 1,280	do	55			165
	Aug. 19	Short 50	December	150		50	
	Aug. 24	Short 60	do	150			
	Aug. 29	Short 40	do	150			190
	Sept. 3	Long 90	do	100			
	Sept. 10	do	do	100			
	Sept. 17	Long 190	do	100			
Total				1,120	150		
17	Jan. 31	Long 75	May	60			
19	Jan. 4	Long 50	do	50			50
	Do	Long 45	July	50			
	Jan. 6	Long 150	May	50			
	May 10	Short 55	July	100		100	
	Do	Short 50	September	100		50	
	May 16	Long 145	July	50			
	June 23	Even	September	100		50	
	July 12	do	December	50			
	July 15	do	September	50			
	Do	Long 50	December	50			
	July 18	do	September	50			
	Do	Even	December	50			
	July 28	Long 50	September	25			
	Do	Long 100	December	50			
	Aug. 29	Long 150	do	50			
	Sept. 3	Long 50	do	50			
Total				925			

TABLE 21.—*Accumulating of long commitments in Chicago wheat futures through bids sold or offers bought by 21 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity accumulated (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
21	Jan. 7	Long 10	May		500		210
	Jan. 21	Long 25	do	25			25
	Jan. 25	Long 50	do		200		50
	May 27	Long 100	September		100		200
	June 2	Even	do	100			
	Sept. 10	Long 200	December	50			
	Sept. 17	Long 350	do	50		50	
	Sept. 26	Long 400	do	50			
Total				275	800		
22	Jan. 4	Long 100	May	50			100
	Jan. 19	Even	do	20		50	
	Jan. 31	Long 500	do	100		100	200
	Feb. 7	Long 950	do	20		200	1,170
	Apr. 2	Long 205	do		50		50
	Apr. 29	Long 300	July		90	100	90
	May 2	Long 405	do		100	50	155
	July 15	Even	September	50		50	50
	Aug. 8	Long 100	do		100		
	Sept. 26	do	December	50		150	
Total				290	340		
23	May 18	Long 195	July		90	425	285
	May 27	Long 450	do		65	175	535
	July 22	Long 110	September		5	305	130
	July 26	Long 255	do		100	400	320
Total					260		
24	Mar. 1	Short 65	May		310	125	355
	Mar. 29	Long 45	do		420	930	930
	Apr. 29	Long 105	July		60		130
	May 21	Long 640	do		325	735	485
	May 27	Long 855	do		500	100	230
	June 11	Long 350	do	95		105	100
	June 30	Long 605	September		100	355	765
	Oct. 29	Long 555	December		340	430	530
Total				95	2,055		
26	Apr. 4	Short 30	May	50			190
	June 17	Short 5	September	50			
	June 23	Long 45	do	25		50	135
	July 12	Long 10	do	60		445	865
Total				185			
29	June 30	Long 100	September		500		
	Oct. 15	Even	December	30			
	Oct. 17	Long 30	do	500			
	Oct. 28	Even	(1928) May	310			
Total				840	500		
30	May 2	Long 320	July		50		
31	Jan. 7	Long 200	May		500		
	Jan. 12	Long 300	do		15		300
	Jan. 18	Long 65	do		200		165
	Jan. 25	Long 75	do		750		745
	Mar. 1	Long 165	do		100		
	Apr. 29	Even	July		100		
	May 2	Long 100	do		200		100
	June 2	Long 355	do	50		75	125
	July 7	Long 75	September		200		100
	Do	Even	December		120		
	July 11	Long 50	September	25			100
	July 15	Long 70	do	25			25
	Aug. 8	Long 300	do		500		650
	Do	Short 45	December		500		
Total				100	3,185		

TABLE 21.—*Accumulating of long commitments in Chicago wheat futures through bids sold or offers bought by 21 large speculators during Jan. 3 to Oct. 31, 1917*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity accumulated (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
32	Jan. 4	Long 50	May	195	--------	420	595
	Jan. 19	Long 160	do	35	--------	145	250
	Jan. 21	Long 170	do	285	--------	--------	425
	Feb. 9	Long 85	do	115	--------	510	740
	Feb. 25	Short 20	do	--------	85	480	175
	Mar. 29	Long 70	do	--------	150	490	195
	Apr. 2	Long 130	do	--------	80	90	295
	Apr. 9	Long 5	July	50	--------	--------	170
	Apr. 19	Long 50	do	--------	250	--------	135
	May 18	Long 120	do	--------	[1] 115	[2] 185 620	[2] 70 525
	May 24	Long 85	do	--------	245	695	860
	July 26	do	September	--------	[1] 245	[2] 250 385	[2] 5 410
Total				680	1,170	--------	--------
34	Aug. 8	Even	September	85	--------	105	135
	Do	do	December	--------	65	--------	65
Total				85	65	--------	--------
35	Jan. 7	Long 215	May	--------	100	200	300
	Jan. 18	Long 445	do	--------	100	205	205
	Jan. 20	Long 370	do	--------	75	--------	--------
	May 3	Long 235	July	--------	230	25	--------
	May 5	do	do	--------	200	110	310
	May 18	Short 20	do	--------	300	5	855
Total				--------	1,005	--------	--------
Grand total				9,015	10,175	--------	--------

[1] Net. [2] On offers.

TABLE 22.—*Accumulating of long commitments in Chicago corn futures through bids sold or offers bought by 20 large speculators during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity accumulated (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
1	Jan. 6	Long 4,050	May	--------	100	--------	--------
	Jan. 10	Long 4,150	do	--------	100	--------	100
	Jan. 25	Long 4,500	do	--------	100	--------	--------
	June 27	Long 6,970	September	--------	100	--------	100
	July 1	Long 7,170	do	50	--------	300	--------
Total				50	400	--------	--------
4	Jan. 18	Even	May	--------	500	--------	--------
	Aug. 4	do	December	--------	500	--------	--------
	Aug. 5	Long 500	do	--------	365	--------	--------
	Aug. 6	Long 865	do	--------	500	--------	--------
	Aug. 8	Long 1,365	do	--------	335	--------	--------
	Oct. 6	Long 1,000	do	--------	205	500	--------
Total				--------	2,405	--------	--------

TABLE 22.—*Accumulating of long commitments in Chicago corn futures through bids sold or offers bought by 20 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity accumulated (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
6	July 15	Short 60	September	500			
	Sept. 21	Long 1,040	December	485		25	
	Oct. 13	Even	do	685		200	
	Oct. 14	Long 885	do	750			
Total				2,420			
7	Jan. 26	Long 3,050	May	200			
	Jan. 28	Long 3,950	do	200			
	Oct. 10	Even	December	100			
	Oct. 11	Long 100	do	500			600
	Oct. 15	Even	do	600			
	Oct. 20	Long 345	do	500			
	Oct. 26	Long 595	do	500			
	Oct. 31	Long 605	do	775			
Total				3,375			
9	Sept. 16	Long 100	December	50			150
	Oct. 1	Even	do	100			
	Oct. 20	Long 500	do	100			
Total				250			
10	Mar. 15	Long 800	May	200		50	
11	Aug. 24	Long 1,100	September	200			
	Oct. 26	Long 100	December	200			
Total				400			
14	Oct. 1	Long 300	December	300			
15	July 14	Even	September	35			
	July 15	Long 35	do	100			35
	Sept. 6	Even	December	100			50
	Sept. 10	do	do	100			100
Total				335			
16	July 1	Long 230	September	160			275
	July 14	Long 790	December	200		210	400
	July 15	Long 800	do	100		125	1,075
	Aug. 16	Even	do	70			
	Aug. 31	Long 100	do	100			
	Sept. 3	do	do	100			
	Sept. 6	Long 200	do	100			
	Sept. 10	do	do	50			
	Sept. 12	Long 250	do	100			
	Sept. 16	Long 350	do	100			
	Sept. 21	Long 250	do	100			
	Sept. 27	Long 400	do	100			
	Oct. 1	Long 500	do	100		15	410
	Oct. 14	Long 355	do	100			
	Oct. 18	Long 190	do	100			
	Oct. 20	Long 290	do	55		100	
	Oct. 26	Long 530	do	75		25	
Total				1,710			
19	Jan. 3	Long 200	May	50			
	Feb. 1	Long 100	do	50			
	Feb. 26	Long 50	July	50			
	Feb. 28	do	May	50			
	Do	Long 100	July	50			
	Mar. 14	Long 155	May	25			
	Mar. 18	Long 200	do	50			
	May 10	Even	September	5			
	June 10	Long 50	July	50		50	
	Do	Long 350	September	100		150	

TABLE 22.—*Accumulating of long commitments in Chicago corn futures through bids sold or offers bought by 20 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity accumulated (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
19	June 25	Long 585	September	50			
	July 1	Even	July	50			
	July 15	Long 550	September	50			
	Do	Long 50	December	50			
	July 28	Long 550	September	50			
	July 29	Long 600	do	50			
	Aug. 29	Long 325	December	50			
	Aug. 31	Long 375	do	50			
	Sept. 3	Long 425	do	50			
	Sept. 6	Long 475	do	50			50
	Sept. 10	do	do	50			
	Sept. 12	Long 575	do	50			
Total				1,080			
21	July 14	Even	September	40			
	July 20	Long 150	do		100		
	July 25	Short 50	December		315	310	150
	Aug. 8	Long 510	do		250		
	Sept. 6	Long 420	do	50			150
	Oct. 1	Even	(1928) March	30			30
	Oct. 18	Long 5	(1928) May	100			
Total				220	665		
22	Jan. 31	Long 200	May	10			110
	Feb. 1	Long 10	do	40			
	Feb. 7	Long 25	do	85			200
	Feb. 9	Long 50	do	50			
	Feb. 16	Long 250	do	50		50	200
	Feb. 21	Even	do	50		50	
	Feb. 28	Long 350	do	50			150
	Mar. 3	Long 300	do	50		50	
	Mar. 5	Long 450	do	50			100
	Mar. 12	Long 300	do		50		50
	Apr. 6	Long 275	do		100	50	100
	Apr. 27	Even	September	50		150	50
	May 2	do	May		100	350	100
	June 10	do	July	100			100
	June 23	Long 350	September	50			100
	June 25	Long 250	do	50			50
	July 1	do	do	100		100	200
	Sept. 27	Long 100	December	100			
	Oct. 18	do	do	50			50
	Oct. 20	Even	(1928) March	75			75
Total				1,010	250		
23	Jan. 10	Long 350	May		200		
	Aug. 8	Long 360	September		135	95	50
	Sept. 19	Long 435	December		125	905	1,415
Total					460		
24	Jan. 6	Long 595	May		30		
	Apr. 29	Even	September		75		
	May 4	Short 135	May		300	230	230
	May 11	Short 115	July		260	290	210
	May 13	Even	do		100	710	580
Total					765		
25	Jan. 28	Long 200	May	200			
	Feb. 7	do	do	100			
	Feb. 16	Long 300	do	100			
Total				400			
26	Mar. 14	Long 130	May	50			80
	Mar. 17	do	do	30			30
	Mar. 22	do	do	20		55	105
	May 7	Long 45	July	60		145	345
	Sept. 12	Even	December	50		55	250
	Oct. 1	do	do	50			50
Total				260			

TABLE 22.—*Accumulating of long commitments in Chicago corn futures through bids sold or offers bought by 20 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity accumulated (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
30	May 2	Even	July		100		
	Sept. 16	Long 390	December	300			
	Oct. 14	Even	do	100			
	Oct. 18	Long 320	do	150		600	
Total				550	100		
31	Jan. 4	Long 375	May		100		
	Jan. 14	Long 250	do	10			
	Jan. 25	Long 310	do		70		
	Mar. 10	Long 210	do	25			25
	Mar. 24	do	do	20		20	
	July 14	Even	September	20			
	Aug. 5	do	do		100	250	50
	Aug. 8	Long 300	do		220	80	
	Oct. 20	Even	(1928) March	45			
Total				120	490		
32	Jan. 14	Long 160	May	55		245	500
	Feb. 9	Long 210	do	100			
	Feb. 28	Long 40	do	100			
	May 14	Long 100	July		150	5	50
	June 13	Long 5	do		145		150
	Do	Long 105	September		55	650	565
	June 23	Long 50	do	[1] 50		[2] 100 150	[2] 50 245
	Sept. 12	Long 15	December	115		810	895
	Sept. 20	Long 115	do		[1] 280	[3] 295 355	[3] 15 900
Total				420	630		
Grand total				13,100	6,165		

[1] Net. [2] On bids. [3] On offers.

Illustrations.—The accumulation of a "long" line on a large scale by means of selling bids is illustrated by the trading operations of speculators nos. 6 and 7. On March 11, 1927, the former had no open commitments in the July wheat future. That day he sold bids in July wheat to the extent of 235,000 bushels, and on March 12, 14, 17, 18, 19, and 21, he sold, each day, 250,000 bushels in the same future. On the 15th, 19th, and 22d futures were put to him as shown in table 21 which resulted in giving him at the close of the trading on the 22d a net long position of 745,000 bushels in the July future without his having purchased a single bushel through pit trades. While building this long line of July wheat through the use of privileges, he also increased his short commitments by the 22d in the May wheat future from 1,405,000 to 3,105,000 bushels by sales of 1,700,000 bushels made through the pit. His selling of the May future most likely aided in forcing the price of July wheat through the bids as the trades in the former were made on the same days that the July wheat was put to him. On each of four other occasions this same speculator accumulated, through bids, long commitments in Chicago corn futures ranging from 485,000 to 750,000 bushels. On July 15, he obtained 500,000 bushels, on September 21, 485,000 bushels, October 13, 685,000

bushels, and on October 14, 750,000 bushels, or a total of 2,420,000 bushels as is shown in table 22.

During June 1927 speculator no. 7, who is also a heavy trader in privileges as well as in futures, was successful four times in using bids to accumulate a long line of Chicago wheat futures. On June 2 by the use of bids he added 925,000 bushels to his long line of September wheat, which already was 3,700,000 bushels. The next day he added another 135,000 bushels, on the 17th, 500,000 bushels more and on the 23rd, 600,000 bushels, making a total of 2,160,000 bushels, acquired by means of bids sold. In Chicago corn futures he accumulated, through bids, as little as 100,000 to as much as 775,000 bushels, at a time. The aggregate amount obtained by him through bids during the 10-month period of January to October 1927 was 3,375,000 bushels of which almost 3,000,000 were secured during October. Additional illustrations of the extent to which bids were used in accumulating long lines by 19 other speculators in wheat and 18 others in corn will be found in tables 21 and 22.

The accumulation of long lines through the purchase of offers is excellently illustrated by the operations of trader no. 4. On August 3, 1927, this trader had no open commitments in the December corn future. After the close of the futures market on that day, however, he purchased offers in December corn to the extent of 500,000 bushels. These were exercised by him on August 4. On the latter day he again bought offers to the amount of 500,000 bushels. Of this quantity offers representing 365,000 bushels were called by him on August 5. This gave him a net long position of 865,000 bushels. At the close of the futures market he purchased additional offers in the December future to the extent of 1,000,000 bushels of which 500,000 were called on August 6, thus giving him a net long position of 1,365,000 bushels in that future. This was further increased through offers called on August 8 to 1,700,000 bushels. This whole amount, acquired through offers, was liquidated by sales through the pit on August 11, when the price of the December future declined 1⅛ cents, net, for the day. By building up this line of 1,700,000 bushels in a single future under cover, through privileges, he did not contribute anything directly to advancing prices. On the other hand, when he liquidated his holdings through the pit the market received the full force of his selling. It can, of course, be argued that the sellers of the offers contributed to advancing prices when they made purchases to protect themselves on the days that they were "called" for futures or later when they bought corn futures which they automatically went short when the offers were exercised by the buyers. This argument, although sound, does not alter the fact that trader no. 4 did not directly aid in advancing prices of futures.

LIQUIDATION OF LONG LINES OF FUTURES THROUGH PRIVILEGES

Long lines of futures can be liquidated by sales made in the pit or through privileges which are exercised. In order to liquidate by the use of privileges a trader necessarily has to purchase bids or sell offers. Being the buyer, he may exercise the bids whenever he desires within the time limit specified. In order to reduce long lines through the sale of offers, however, the seller must wait until the offers are exercised by the buyers. The exercise of offers is sometimes assured by the seller's making purchases of futures in the pit when the price of the

future is near that of the offer and thereby aiding in driving the price of the future through the price of the offer. From experience the seller knows that if the privilege is good at the close it is pretty certain to be exercised.

Liquidation by the large speculators was accomplished more frequently through the sale of offers than by the purchase of bids during the 10-month period, January to October 1927, as is indicated by the figures in tables 23 and 24. The aggregate amount of Chicago wheat futures liquidated during the 10-month period for the account of the large speculators previously referred to was 6,550,000 bushels through bids, and 8,990,000 bushels through offers. In corn futures 5,995,000 bushels were liquidated through bids, and 11,750,000 bushels by means of offers. Offers are more frequently used than bids because "longs" prefer to liquidate when prices are advancing, and offers, therefore, are more likely to be exercised than bids. In addition, liquidation through the purchase of bids necessitates the payment of fees by the trader, whereas by selling offers the fees are paid to the traders. "Longs" who have overstayed the market and wish to minimize their loss will at times buy bids in preference to liquidating in the pit.

TABLE 23.—*Liquidating of long commitments in Chicago wheat futures through bids bought or offers sold by 16 large speculators during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity liquidated (sold) through —		Other trading in the same future	
				Bids	Offers	Purchases	Sales
5	Mar. 29	Long 275	May		350	310	2,390
	May 5	Long 730	do		165	20	55
Total					515		
6	May 5	Long 5,670	July		250		
	May 24	Long 1,710	do		245		555
	May 27	Long 60	do		500	930	475
Total					995		
7	June 7	Long 4,825	September		100	300	500
	June 30	Long 7,825	do		500	500	
	July 7	do	do		95	300	
	July 26	Long 6,725	do		200		
Total					895		
9	July 16	Long 200	September		95		
16	Apr. 2	Long 15	May		25		15
	Apr. 5	Long 25	July		30		
	Apr. 6	do	May		50		
	Apr. 19	do	do		25		
	Do	Long 75	July		50		
	Apr. 21	Long 25	do		50	550	
	Apr. 29	Long 325	do		100		100
	May 5	Long 225	do		200	50	50
	May 17	Long 1,100	do		150	200	50
	May 18	do	do		190	465	
	May 21	Long 1,675	do		75		
	May 23	Long 1,600	do		100		
	May 24	Long 1,500	do		50		625
	May 27	Long 615	do		300	200	
	June 7	Long 800	September		100	350	100
	June 27	Long 1,090	do		230		
	July 7	Long 1,460	do		100	150	
	Aug. 20	Long 200	December		200		10
	Sept. 24	Long 90	do		100		
Total					2,125		

TABLE 23.—*Liquidating of long commitments in Chicago wheat futures through bids bought or offers sold by 16 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity liquidated (sold) through —		Other trading in the same future	
				Bids	Offers	Purchases	Sales
17	Jan. 7	Long 100	May		100	85	
	Jan. 20	Long 125	do		50		
	Feb. 2	Long 135	do		100		
Total					250		
19	Jan. 12	Long 150	May		20		
	May 5	Long 400	do		100		300
	May 21	Long 100	September		50		
	Do	Long 45	July		50		
	May 23	Long 50	September		50	100	
	May 24	Long 100	do		70		50
	June 27	Long 150	do		50		
	June 30	Long 100	July		150		100
	Do	do	September		100		100
	July 16	do	December		100		
	July 20	do	September		50		
	Do	Long 50	December		50		
	July 26	do	September		50		
Total					890		
21	Jan. 20	Long 200	May		25	50	200
	Sept. 23	Long 450	December		25		
	Sept. 24	Long 475	do		75		
Total					125		
22	Jan. 7	Long 350	May		150	100	100
	Jan. 12	Long 550	do		200	150	
	Jan. 18	Long 100	do		100		
	Jan. 20	Long 70	do		25	30	
	Jan. 25	Long 350	do		150	200	
	Feb. 2	Long 500	do		100	300	100
	Mar. 1	Long 200	do		100	200	
	Mar. 4	Long 350	do		100	250	
	Apr. 6	Long 200	do		50	100	100
	May 3	Long 400	July		100		
	May 5	Long 200	do		100	400	
	May 7	Long 400	do		75	100	
	May 18	Long 100	do		100	150	150
	May 21	Long 200	do		95	600	100
	May 24	Long 1,005	do		200	45	850
	May 27	Long 600	do		100	100	400
	June 7	Long 250	do		100	150	100
	July 7	Long 800	do		100	100	
	July 20	Long 100	September		100	150	
	July 22	do	do		100	150	
	Aug. 15	Long 800	December		85	100	390
	Sept. 23	Long 100	do		50	50	
	Oct. 6	Long 500	(1928) May		150	50	200
	Oct. 8	Long 200	do		30	200	
Total					2,460		
23	Mar. 22	Long 115	July	225		300	55
	June 3	Long 570	do	70		200	230
	July 7	Long 325	September		125	185	130
	Oct. 25	Long 850	December		[1] 80	[2] 20 	[2] 100 340
Total				295	205		
24	Mar. 7	Long 80	May	100		355	220
	Mar. 28	Long 950	do	515		110	500
	Mar. 30	Long 460	do	[1] 265		[3] 160 100	[3] 425 240
	Apr. 4	Long 555	do	605		125	305
	Apr. 7	Long 635	do	120			
	Apr. 9	Long 260	do	500		550	165
	May 10	Long 540	July	500		200	570
	June 2	Long 625	September	475		130	
	June 7	Long 235	do		5	510	150
	June 17	Long 390	July	[1] 170		[3] 5 250	[3] 175 165
	June 23	Long 935	do	500		425	670
	Oct. 11	Long 1,005	December	500		55	800
Total				4,250	5		

See footnotes at end of table.

TABLE 23—*Liquidating of long commitments in Chicago wheat futures through bids bought or offers sold by 16 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity liquidated (sold) through —		Other trading in the same future	
				Bids	Offers	Purchases	Sales
30	June 2	Long 190	July	200		5	485
	June 11	Long 130	do	35		120	215
Total				235			
31	Jan. 15	Long 165	May		100		
	Jan. 19	Long 100	do	120		170	50
	May 23	Long 150	July		25	100	120
	June 23	Long 55	do	100		50	
	July 28	Long 120	September	100			
	Aug. 19	Long 250	December	250			200
Total				570	125		
32	Jan. 7	Long 105	May		85	220	455
	Mar. 7	Long 150	do	5		80	135
	June 3	Long 560	July	185		250	100
	July 18	Long 330	September	[1] 190		[3] 165 35	[3] 355 150
	Sept. 10	Long 95	December	[1] 135		270 [3] 25	220 [3] 160
	Sept. 23	Long 80	do		100	15	50
	Oct. 20	Long 145	do	[1] 40		[3] 10 5	[3] 50 350
Total				555	185		
34	Jan. 18	Long 150	May		70	70	
	July 11	Long 480	September	445		300	355
	July 20	Long 50	do		50	250	
Total				445	120		
35	Mar. 30	Long 170	May	200		375	390
Grand total				6,550	8,990		

[1] Net. [2] On offers. [3] On bids.

TABLE 24.—*Liquidating of long commitments in Chicago corn futures through bids bought or offers sold by 18 large speculators during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity liquidated (sold) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
1	Jan. 26	Long 4,600	May		100		
	June 1	Long 3,855	July		500		
	Aug. 8	Long 300	December		80		
	Aug. 9	Long 215	do		185		
	Aug. 24	Long 5,780	September	280			
	Sept. 16	Long 8,470	December	2,560			
Total				2,840	865		
5	Jan. 10	Long 470	May		190	100	210
	May 4	Long 305	do		300		
Total					490		
6	May 18	Long 315	July		200		
	Sept. 20	Long 2,585	December		500	940	1,895
	Oct. 26	Long 3,675	(1928) March	80			
Total				80	700		

TABLE 24.—*Liquidating of long commitments in Chicago corn futures through bids bought or offers sold by 18 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity liquidated (sold) through —		Other trading in the same future	
				Bids	Offers	Purchases	Sales
7	May 11	Long 5,660	July		200		
	May 14	Long 5,460	do		300		
	May 18	Long 6,245	do		500		
	July 20	Long 7,850	September		455		
	July 22	Long 7,395	do		200		
	Oct. 25	Long 845	December		55		195
	Oct. 28	Long 1,095	do		405		85
Total					2,115		
10	June 1	Long 1,500	July		500		
11	July 25	Long 695	September		200	100	
	Aug. 5	Long 1,195	do		200		
	Aug. 6	Long 995	do		200		
	Aug. 8	Long 795	do		105	200	
	Oct. 28	Long 300	December		200		50
Total					905		
15	May 11	Long 250	July		100		200
	May 14	Long 80	do		100		
	May 19	Long 150	do		100	200	
	May 26	Even	do		100	100	
Total					400		
16	Jan. 18	Long 2,380	May		200	275	25
	Jan. 25	Long 2,430	do		50		
	Mar. 16	Long 2,195	do		200	235	30
	May 27	Long 100	July		100	450	
	June 13	Long 605	September		50	250	100
	June 27	Long 230	do		105	505	200
	July 25	Long 100	December		150		50
	Aug. 1	Long 50	do		135		
	Aug. 26	Long 100	do		130		
	Sept. 19	Long 450	do		100		
	Sept. 20	Long 350	do		50		50
	Oct. 6	Long 280	do		100	200	
	Oct. 25	Long 445	do		35	200	85
	Oct. 28	Long 430	do		70		
Total					1,475		
19	Jan. 6	Long 150	May		50		
	Jan. 8	Long 100	do		50		
	Jan. 10	Long 50	do		50		
	Feb. 2	Long 150	do		50		35
	Feb. 10	Long 100	do		50		50
	Feb. 25	Long 250	do		100		100
	Mar. 9	Long 255	do		50		50
	May 5	Long 250	do		100		150
	May 11	Long 105	July		50		
	May 27	Long 50	do		50		50
	June 13	Long 150	do		65		300
	June 16	Long 550	September		40		
	June 27	Long 635	do		50		100
	July 20	Long 600	do		50		
	Do	Long 100	December		50		
	July 25	do	do		100		50
	Aug. 26	Long 500	September		50		
	Do	Long 375	December		50		
	Sept. 19	Long 180	(1928) March		10		
Total					1,065		
21	May 19	Long 50	July		50		
	July 23	Long 350	December	200			200
	Aug. 6	Long 300	September		85		100
	Aug. 16	Long 820	December	380		70	
	Sept. 21	Long 225	do	180		185	155
Total				760	135		

TABLE 24.—*Liquidating of long commitments in Chicago corn futures through bids bought or offers sold by 18 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity liquidated (sold) through —		Other trading in the same future	
				Bids	Offers	Purchases	Sales
22	Jan. 10	Long 100	May		100	100	
	Jan. 12	Long 50	do		40	200	
	Jan. 18	Long 490	do		200	200	
	Feb. 2	Long 50	do		40		
	Feb. 5	Long 60	do		50	15	
	Feb. 18	Long 150	do	100			50
	Mar. 1	Long 250	do		100	150	
	Mar. 16	Long 500	do		100	100	
	Apr. 8	Long 325	do		25	50	
	May 5	Long 100	September		100	250	50
	May 13	do	July		100	50	
	May 14	Long 50	do		100	250	
	May 18	Long 150	do		100	250	200
	May 19	Long 200	do		100	200	300
	May 27	Long 650	September		100	200	
	June 1	Long 350	do		100	300	
	July 20	Long 300	do		100		
	July 25	Long 650	do		100	200	
	Do	Long 150	December		100	250	
	Aug. 4	Long 250	do		100	100	
	Aug. 5	do	do		100	450	
	Do	Long 850	September		45		300
	Aug. 8	Long 700	December		100	150	
	Oct. 6	Long 100	do		25	50	
Total				100	2,025		
23	Feb. 7	Long 300	May	300		185	140
	Feb. 23	Long 500	July	30		130	115
	Apr. 7	Long 585	do	20		50	100
	Apr. 12	Long 545	do	305		160	130
	June 3	Long 565	do	100		240	310
	June 25	Long 360	September	150		130	225
	Aug. 29	Long 70	December	75		25	515
	Sept. 16	Long 310	do	150		50	50
Total				1,130			
24	Mar. 14	Long 80	May		20	55	140
	Mar. 18	Long 235	July	105			
	Apr. 12	Long 135	do	45		5	170
	May 10	Long 625	September	50		105	
Total				200	20		
25	Feb. 5	Long 400	May		100		
26	Jan. 6	Long 20	do		10	10	20
30	Sept. 20	Long 940	December		300		
31	Jan. 10	Long 275	May		100		
	July 28	Long 250	December	35			65
	Aug. 5	Long 275	do		15		300
	Aug. 16	Long 550	do	300			
	Oct. 25	Long 50	(1928) May		50	100	
Total				335	165		
32	Feb. 10	Long 310	May		100	75	75
	Mar. 10	Long 105	do	200		30	
	Mar. 14	Long 175	do	35			40
	May 5	Long 240	July		50	645	535
	May 11	Long 585	do		80	895 [2] 100	1,160 [2] 200
	June 3	Long 670	do	[1] 100		455	235
	June 10	Long 385	do	35		390	685
	Aug. 6	Long 490	December		150	480	395
	Sept. 10	Long 25	do	100		90 [2] 10	 [2] 90
	Sept. 16	Long 195	do	[1] 80		575	615
Total				550	380		
Grand total				5,995	11,750		

[1] Net. [2] On bids.

Illustrations.—The most outstanding instance in which a large speculator used bids to reduce his long line on a big scale was that of trader no. 1. At the beginning of the day on September 16, 1927, he was long almost 8,500,000 bushels of December corn. By the end of the day his line was reduced by over 2,500,000 bushels through the exercising of bids bought the previous day. Apparently he felt that he could secure a better price for his long corn through privileges than by liquidating an equivalent amount through sales in the pit which would tend to depress prices. Other illustrations involving smaller amounts can be found by examining tables 23 and 24. For example, trader no. 24 frequently used bids as a means of liquidating holdings of wheat futures. During the 10-month period his aggregate liquidations amounted to 4,250,000 bushels. For trader no. 23, the aggregate liquidated in corn futures during the same period was more than 1,000,000 bushels. Two large speculators, nos. 16 and 22, used offers for purposes of liquidating holdings in wheat, on a large scale, during the 10-month period. For trader 16 the aggregate was over 2,000,000 bushels, and for trader 22, nearly 2,500,000 bushels. In corn there were four traders, nos. 7, 16, 19, and 22, who made considerable use of offers for purposes of liquidation. The total liquidations for trader no. 7 for the same period were over 2,000,000 bushels, for no. 16, nearly 1,500,000 bushels, for no. 19, a little more than 1,000,000 bushels, and for no. 22, slightly more than 2,000,000 bushels.

BUILDING UP SHORT LINES OF FUTURES THROUGH PRIVILEGES

The acquisition of a short line in grain futures through privileges is accomplished in the same manner that long commitments are liquidated, namely, through the purchase of bids or the sale of offers. During the 10-month period of January to October 1927, 18 large speculators in Chicago wheat futures, and 17 in corn futures, used bids more extensively than offers in acquiring a short position. As shown in table 25, open short commitments in wheat futures aggregating 16,770,000 bushels were acquired by means of bids, and 10,655,000 bushels through offers. In corn futures, open short commitments aggregating 12,490,000 bushels were acquired through the purchase of bids, and 5,150,000 bushels through the sale of offers, as shown in table 26.

There were 5 large speculators in wheat futures, and 4 in corn futures, and another trading in both grains who, at various times, during the 10-month period previously referred to, increased their short account very substantially through privileges. The most prominent was trader no. 24 whose open commitments in wheat were increased an aggregate of 5,185,000 bushels through bids, and in corn 6,535,000 bushels. Trader no. 35 acquired open commitments in wheat of 4,435,000 bushels, through bids. Trader no. 5 acquired open commitments in wheat of 3,735,000 bushels, by means of bids, and 1,285,000 bushels through offers. Trader no. 7 acquired open commitments in wheat of 3,305,000 bushels through offers. While open commitments, acquired through privileges by the remainder of the group were smaller, the aggregates were above the million-bushel mark, as can be seen in tables 25 and 26.

TABLE 25.—*Increasing of short commitments in Chicago wheat futures through bids bought or offers sold by 18 large speculators, during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Amount of increase (sold) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
5	Jan. 4	Short 2,610	May	100		365	490
	Jan. 7	Short 480	do		500	1,255	1,050
	Jan. 15	Short 2,075	do		70	50	
	Mar. 4	Short 1,870	do		350	920	705
	Mar. 9	Short 2,085	do	395		275	
	Mar. 15	Short 2,200	do	365		465	405
	Mar. 29	Even	March		100		50
	Mar. 30	Short 2,155	May	355		85	840
	Apr. 9	Short 3,190	do	500		1,735	1,375
	May 10	Short 1,685	July	630		1,325	655
	May 17	Short 1,775	do		225	875	830
	May 18	Short 1,955	do		[1] 25	[2] 500 1,755	[3] 525 895
	May 21	Short 1,580	do		15	1,180	1,335
	June 2	Short 710	do	210		810	125
	June 3	Short 235	do	275		635	270
	June 11	Short 520	do	230		1,120	1,230
	June 17	Short 850	do	285		945	295
	June 23	Short 680	do	390		225	70
Total				3,735	1,285		
6	May 18	Short 695	July		500	2,350	
7	Jan. 25	Short 4,845	May		100	945	
	Mar. 16	Short 4,250	do		580		
	Mar. 26	Short 6,250	do		40		
	Mar. 29	Short 6,450	do		350		
	Apr. 11	Short 2,805	July		100		1,200
	Apr. 19	Short 4,705	do		100		
	Apr. 21	Short 4,805	do		250		
	May 17	Short 4,845	do		375		175
	May 18	Short 5,395	do		500	250	
	Sept. 29	Short 5,465	December		330		380
	Oct. 6	Short 5,295	do		80		40
	Oct. 29	Short 6,885	do		500		
Total					3,305		
9	July 26	Short 100	September		100		
15	Apr. 14	Short 100	July		100		
	June 27	Short 150	September		50	150	
	Sept. 24	Even	December		100		
Total					250		
16	Apr. 6	Short 5	July		20		
	May 2	Long 25	do		100	100	
	May 3	do	do		95	250	155
	July 20	Short 425	September		50		
	July 22	Short 575	do		25		
	July 26	Short 600	do		25		
	Aug. 8	Short 700	do		50		
	Aug. 15	Short 50	December		100		
	Oct. 8	Short 610	do		25		
	Oct. 25	Short 305	do		100		
	Oct. 29	Short 405	do		100		
Total					690		
17	Jan. 12	Short 15	May		100		
19	May 9	Short 5	July		50		
	May 9	Even	September		50		
	May 23	Short 5	July		30	50	
	May 24	Long 15	do		50	30	
	May 27	Short 5	do		50		100
	do	Short 20	September		50		50
	June 7	Even	July		50		100
	do	do	September		50		
	July 26	do	December		50		
Total					430		

See footnotes at end of table.

TABLE 25.—*Increasing of short commitments in Chicago wheat futures through bids bought or offers sold by 18 large speculators during Jan. 3 to Oct. 31, 1927*—Con.

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Amount of increase (sold) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
21	Mar. 23	Even	July		100		
	June 7	do	do		100		
	June 23	do	do	200		100	100
	do	do	September	30		30	
Total				230	200		
22	Jan. 15	Even	May		45		
23	Mar. 15	Short 445	May	115		300	
	May 16	Long 15	July	175		250	250
	June 2	Short 70	September	150			100
	July 15	Short 105	do	170		200	5
	Sept 27	Short 310	December	50		480	105
	Oct 17	Short 35	do	150		50	445
Total				810			
24	Mar. 12	Short 180	May	185			175
	Mar. 17	Short 55	do	500		445	70
	Mar. 19	Short 510	do	200		295	310
	Mar. 22	Long 15	do	500		195	185
	Apr. 7	Short 445	July	200		130	
	Apr. 9	Short 650	do	100		205	220
	Apr. 28	Long 10	September	145		10	75
	June 17	Short 120	do	660		55	310
	Aug. 29	Short 175	December	265		15	300
	Oct. 17	Long 65	do	600		75	620
	Oct. 18	Short 1,080	do	730		305	70
	Oct. 20	Short 1,195	do	600			
	Oct. 21	Short 1,795	do	500		675	
Total				5,185			
25	Oct. 1	Short 1,630	December	800		1,305	
	Oct. 25	Short 2,050	(1928) May		200	210	10
	Oct. 29	Short 1,675	do		50		
Total				800	250		
26	Jan. 7	Short 215	May		200	890	585
	Jan. 18	Short 85	do		150	195	110
	Mar. 1	Short 425	do		50	740	395
	Mar. 29	Short 155	do		25	55	20
	Apr. 2	Short 45	do		45	60	
	Apr. 6	Short 195	do		50		
	May 17	Short 305	July		55	490	190
	June 27	Short 140	do		25	50	10
	June 30	Long 30	September		100	450	445
	July 16	Short 395	do		25	700	315
	July 18	Short 35	do	40		450	595
	July 20	Short 85	do		100	695	455
	July 26	Short 125	do		80	785	380
	Aug. 8	Short 136	do		25	25	
	Sept. 23	Short 125	December		150	405	145
	Sept. 24	Short 15	do		250	315	305
	Oct. 6	Short 485	do		70	50	
	Oct. 25	Short 71	do		200	400	190
	Oct. 29	Short 246	do		200	200	
Total				40	1,800		
30	July 12	Short 460	September	100			
	Aug. 8	Long 95	do		595	265	
	do	Even	December		235	360	
	Sept. 19	Short 865	do		30		100
	Oct. 20	Short 1,595	do	300			
	Oct. 29	Even	do		420		75
Total				400	1,280		

TABLE 25.—*Increasing of short commitments in Chicago wheat futures through bids bought or offers sold by 18 large speculators during Jan. 3 to Oct. 31, 1927*—Con.

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Amount of increase (sold) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
31	Feb. 7	Short 10	July	100			
	June 23	Short 50	September	100		50	50
	July 27	Even	December	75		30	
	Aug. 29	Short 45	do	200		50	
	Oct. 29	Short 100	(1928) March		25	25	
Total				475	25		
32	Jan. 12	Long 15	May		80	735	255
	Jan. 25	Long 30	do		165	700	345
	May 16	Short 85	July	250		305	270
	July 20	Long 30	September		150	510	230
	Sept. 28	Short 110	December	110		85	20
	Oct. 21	Short 240	do	300		555	230
Total				660	395		
35	Feb. 9	Short 430	May	190		70	110
	Mar. 10	Short 1,015	do	195		460	245
	Mar. 17	Short 830	do	340		330	250
	Mar. 19	Short 945	do	170		195	25
	Mar. 22	Short 1,025	do	200		580	65
	Apr. 4	Short 310	do	200			
	Apr. 7	Short 120	do	400		50	40
	June 2	Short 35	July	100		165	75
	June 3	Short 45	do	100		55	185
	July 15	Short 485	September	295		380	300
	July 18	Short 960	do	130		420	285
	July 28	Short 435	do	155		140	440
	Aug. 19	Short 705	December	300		265	65
	Sept. 2	Short 1,460	do	240		725	85
	Sept. 10	Short 1,730	do	180		495	
	Sept. 13	Short 1,480	do	50		90	310
	Sept. 17	Short 1,395	do	465		425	30
	Oct. 1	Short 1,380	do	50		25	245
	Oct. 17	Short 1,900	do	50		145	295
	Oct. 18	Short 2,100	do	75		270	120
	Oct. 20	Short 2,155	do	550		1,075	135
Total				4,435			
Grand total				16,770	10,655		

[1] Net. [2] On offers. [3] On bids.

TABLE 26.—*Increasing of short commitments in Chicago corn futures through bids bought or offers sold by 17 large speculators, during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Amount of increase (sold) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
4	Sept. 3	Short 1,100	December	500			
	Sept. 27	Even	do	1,000		800	300
Total				1,500			
6	May 27	Long 115	July		500	535	
	Oct. 26	Short 765	December	985			300
Total				985			

TABLE 26.—*Increasing of short commitments in Chicago corn futures through bids bought or offers sold by 17 large speculators during Jan. 3 to Oct. 31, 1927*—Con.

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Amount of increase (sold) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
9	Sept. 19	Even	December		100	300	
	Oct. 26	Short 500	do	500			100
Total				500	100		
15	Jan. 17	Even	May		10		
	Feb. 5	do	do		100		
	Feb. 8	do	do		25		
	Mar. 12	Short 100	do		100		
	Mar. 16	Short 150	do		50		
	Apr. 18	Short 50	do		30		
	Apr. 23	Short 380	do		100		
	May 13	Short 50	July		70	200	
	Sept. 19	Even	December		100		
Total					585		
16	Mar. 25	Long 10	May		50		50
	Mar. 29	Short 190	do		10		50
	Apr. 8	Short 265	do		150		
	Apr. 23	Short 845	do		100		40
	May 4	Even	July		200		
	May 19	do	do		100	200	
	June 1	Long 100	September		100	100	
	July 20	Short 50	December		100		
	Aug. 4	do	do		100		
	Aug. 5	Short 150	do		50	50	
	Aug. 6	do	do		50	200	
	Aug. 8	Even	do		50	400	
Total					1,060		
19	Jan. 10	Long 5	July		40		
	Jan. 12	Even	May		50		
	Jan. 18	Short 50	do		50		
	Feb. 5	Even	do		50		
	Do	Short 50	July		50		
	Feb. 10	Even	do		25		
	May 13	Short 50	do		20		
	Do	Short 100	September		50		
	May 14	Short 70	July		50		
	Do	Short 150	September		50		
	May 17	Short 165	do		50		
	May 18	Short 105	July		50		
	May 19	Short 155	do		50		
	May 24	Even	do		50		
	Do	Short 50	September		50		
	May 27	Short 95	do		50		50
	June 1	Short 50	July		50		
	Do	Short 195	September		50		
	July 2	Even	December		50		
Total					885		
21	Jan. 6	Even	May		100	100	
	Feb. 28	do	do	120		20	
	Apr. 12	Short 75	do	100			
	Apr. 22	Short 175	do	100		100	
	Apr. 27	Even	do	100		50	
	May 25	Short 350	July	20			
	May 28	Short 370	do	100		210	
	Sept. 24	Long 25	December		50	50	100
Total				540	150		
22	Jan. 4	Even	May		100		
	Jan. 6	do	do		100	475	75
	May 11	do	July		100	200	
Total					300		

TABLE 26.—*Increasing of short commitments in Chicago corn futures through bids bought or offers sold by 17 large speculators during Jan. 3 to Oct. 31, 1927*—Con.

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Amount of increase (sold) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
23	Feb. 1	Long 70	May	265			95
	Feb. 23	Short 260	do	85		60	165
	Mar. 14	Short 65	do	85			170
	Mar. 24	Short 415	do	100		130	165
	June 10	Short 205	September	200			
	Aug. 16	Short 530	December	145			120
	Aug. 25	Short 250	do	50		425	105
	Sept. 3	Short 190	do	100		565	255
	Sept. 12	Short 295	do	200		630	100
Total				1,230			
24	Feb. 21	Short 320	May	235		60	30
	Feb. 28	Short 395	do	405		200	
	Mar. 5	Short 715	do	265		170	120
	Mar. 10	Short 80	do	350		105	310
	Mar. 18	Short 525	do	125		240	160
	Mar. 22	Short 490	do	385		865	640
	Apr. 7	Short 95	do	160		50	160
	Apr. 12	Short 390	do	140		25	180
	Apr. 27	Short 200	do	100		15	60
	May 4	Short 290	July		280	710	55
	May 5	Long 85	do		205	340	
	June 25	Short 175	September	375			
	Aug. 29	Long 115	December	440		5	35
	Oct. 1	Short 440	do	430		300	305
	Oct. 13	Short 1,615	do	800		225	
	Oct. 14	Short 2,190	do	550		1,165	125
	Oct. 15	Short 1,700	do	610		1,000	
	Oct. 20	Short 295	do	665		710	175
	Oct. 26	Short 815	do	500		20	285
Total				6,535	485		
25	May 13	Even	July		50		250
26	Mar. 28	Long 100	May		50		40
30	Aug. 4	Short 175	December		100		
	Aug. 5	Short 210	September		10		
	Aug. 24	Short 385	December	100			
	Sept. 3	Short 250	do	100			
Total				200	110		
31	June 27	Even	September		25	50	25
	Oct. 28	do	December		100	100	
	Oct. 31	do	do	100		100	
Total				100	125		
32	Jan. 4	Short 220	May		275	500	
	Jan. 18	Long 56,	do		200	400	5
	May 24	Short 255	July		130	385	125
	Sept. 30	Long 10	(1928) March		45		50
	Oct. 28	Short 95	December		100	390	10
Total					750		
34	July 14	Short 275	September	200		75	20
	July 15	Short 420	do	500		450	130
Total				700			
35	Mar. 10	Short 145	May	100		100	
	Sept. 3	Short 510	December	100		200	
Total				200			
Grand total				12,490	5,150		

Illustrations.—The building up of a short line through the use of bids is well illustrated by the trades of trader no. 4. On September 26, 1927, this speculator had no open contracts in corn futures. On that day, however, he bought bids in the December future to the amount of 1,000,000 bushels at 96⅞ to 97⅛ cents. The following day he sold 300,000 bushels of December corn through the placing of orders executed in the pit at 97 cents per bushel. This aided in making bids good. He also bought 600,000 bushels of December corn at 97 cents, and 200,000 bushels additional when the price declined to 95⅞ cents. He also exercised his bids aggregating 1,000,000 bushels, which made him net short 500,000 bushels of December corn at the end of the day. This he covered the following day by purchases in the pit made at prices ranging from 94¾ to 95¾ cents, which permitted him to cover at a profit.

Another speculator who increased his short commitments through privileges was trader no. 9. He was short 500,000 bushels of December corn futures at the close of the market on October 25. He bought bids on that day representing 500,000 bushels of December corn at 82⅜ to 82¾ cents. The following day he sold 100,000 bushels of December corn futures through the pit at 83 and 83⅛ cents which, with the trades of others, aided in forcing the price of the future through the price of the bids. He then exercised his privileges for 500,000 bushels which made him net short 1,100,000 bushels.

Illustrations showing the use of offers in building up short commitments can be found in tables 25 and 26, but as offers are used less extensively for that purpose than bids, one will find fewer examples of the former involving large amounts.

COVERING OF SHORT LINES OF FUTURES THROUGH PRIVILEGES

In order to cover open short commitments in grain futures through privileges, the trader must either sell bids or purchase offers. The larger speculators being principally sellers of privileges are more likely to sell bids than to purchase offers, and for two reasons: (1) In selling bids the trader receives the fees paid by the buyers while he must pay a fee for the purchase of offers. (2) As the short seller is anticipating a decline in prices on which to realize his profit, he naturally would be expected to sell bids rather than offers for purposes of covering open short commitments. If, however, he should desire to protect himself against any advance in price he, of course, would buy offers and thereby reduce the loss which he might suffer if he covered his open commitments through pit trades.

During the 10-month period of January to October 1927, the 18 large speculators in wheat and 15 in corn previously mentioned covered, by means of bids, open short contracts in Chicago wheat futures aggregating 24,015,000 bushels, and by means of offers, 10,625,000 bushels, as shown in table 27. In corn futures they covered, through bids, 4,777,000 bushels, and through offers, 4,905,000 bushels as shown in table 31. Seven of the large speculators in wheat futures, and four in corn futures, individually, covered more than a million bushels of the respective futures. Some covered more than a million bushels both in wheat and corn. As can be seen in tables 27 and 28, the outstanding traders were nos. 5, 6, 7, 16, 23, 24, 25, 26, and 35. The most prominent of the group was trader no. 7 who

covered through bids in wheat futures an aggregate of 14,860,000 bushels. Trader 24 covered through offers an aggregate in wheat futures of 3,120,000 bushels and 2,140,000 bushels in corn. A third, trader no. 35, by means of offers, covered short commitments in wheat aggregating 3,580,000 bushels.

TABLE 27.—*Covering of short commitments in Chicago wheat futures through bids sold and offers bought by 18 large speculators during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity covered (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
5	Jan. 25	Short 2,440	May		25	1,670	235
	Feb. 28	Short 2,265	do		500		
	Mar. 19	Short 740	do	[1] 380		[2] 500 845	[2] 120 1,130
	Apr. 7	Short 2,860	do	170		405	875
	May 6	Short 2,220	July		150	1,150	1,415
	May 23	Short 1,740	do		340	395	240
	May 24	Short 1,245	do		[1] 75	[3] 150 1,350	[3] 75 980
	June 7	Short 15	do		75	805	1,235
Total				550	1,165		
6	Mar. 28	Short 3,405	May	500		800	100
	June 3	Short 335	July	300			450
	July 12	Short 175	September	100			1,515
	July 15	Short 2,190	do	200			200
	July 18	Short 2,590	do	500			600
	July 20	Short 2,605	do		600		
	July 26	Short 2,605	do		120	700	
	Aug. 24	Short 350	December	300			1,550
	Sept. 17	Short 2,175	do	500			1,040
	Sept. 21	Short 2,715	do	500			
Total				2,900	720		
7	Jan. 21	Short 5,445	May	600			
	Jan. 27	Short 3,950	do	1,000		200	
	Jan. 31	Short 2,750	do	540			
	Feb. 7	Short 3,210	do	500		200	800
	Feb. 9	Short 3,610	do	600			700
	Mar. 10	Short 3,050	do	100			600
	Mar. 15	Short 3,950	do	100			400
	Mar. 17	Short 4,830	do	550		50	720
	Mar. 19	Short 5,450	do	600			900
	Mar. 22	Short 5,950	do	500			500
	Mar. 28	Short 6,290	do	100		140	400
	Mar. 30	Short 6,800	do	1,145			250
	Apr. 4	Short 5,930	do	600			200
	Apr. 7	Short 5,405	do	285			
	Apr. 9	Short 5,120	do	1,000		300	
	Apr. 20	Short 3,020	do	500			
	May 10	Short 5,345	July	500			500
	May 16	Short 5,345	do	500			
	Sept. 21	Short 4,950	December	285		300	500
	Oct. 1	Short 6,175	do	880			
	Oct. 11	Short 5,415	do	1,000			
	Oct. 17	Short 4,415	do	600			
	Oct. 18	Short 3,815	do	600			300
	Oct. 20	Short 4,715	do	1,000		235	500
	Oct. 21	Short 3,980	do	500			1,100
	Oct. 28	Short 6,960	do	275			
Total				14,860			
9	Apr. 9	Short 1,230	July	200			300
	Sept. 17	Short 50	December	100			200
Total				300			
15	Sept. 10	Short 100	December	100			
	Sept. 26	do	do	100			
Total				200			

Footnotes at end of table.

TABLE 27.—*Covering of short commitments in Chicago wheat futures through bids sold and offers bought by 18 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity covered (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
16	Apr. 4	Short 25	May	25			
	Apr. 7	do	do	50			
	Oct. 1	Short 210	December	100			300
	Oct. 6	Short 610	do	100		25	
	Oct. 17	Short 485	do	100			100
	Oct. 18	do	do	100			290
Total				475			
19	June 2	Short 155	July	45			
	Do	Short 170	September	45			
	June 3	Short 110	July	50		55	
	Do	Short 125	September	50		75	
	June 11	Short 200	July	50			
	June 17	do	do	70		50	
	Do	Short 50	September	50		100	
	June 23	Short 80	July	100		80	
	July 11	Short 100	September	40			
	Do	Short 50	December	50			
	July 12	Short 150	July	70		80	
	Do	Short 60	September	50		10	
	Sept. 10	Short 50	December	50			
Total				720			
21	Feb. 9	Short 100	May		200	200	
	Apr. 29	Short 150	do		200	150	200
	June 3	Short 100	July	100			100
Total				100	400		
22	Feb. 9	Short 50	May	100			50
23	Jan. 21	Short 210	do	200		190	425
	Feb. 10	Short 195	do		130	245	
	Mar. 29	Short 165	do		50	305	340
	Apr. 11	Short 150	July		85	65	110
	June 11	Long 185	September		100		
Total				200	365		
24	Jan. 6	Short 1,010	May		310	20	
	Feb. 10	Short 360	do		75	490	200
	Feb. 25	Short 340	do		155	725	340
	Mar. 23	Short 420	July		100	350	5
	Mar. 28	Short 265	do	125		225	280
	Mar. 29	Short 195	do		5	215	135
	Apr. 5	Short 290	do		40	235	220
	Apr. 6	Short 235	do		110	5	325
	Do	Short 250	May		305	590	10
	Apr. 11	Short 765	July		700	190	50
	Apr. 27	Short 365	May		25	1,045	120
	May 2	Short 90	July		[1] 40	[3] 80 580	[3] 40 10
	May 5	Short 320	do		300	370	140
	May 7	Short 150	do		55	910	310
	June 27	Short 385	September		300	1,235	65
	June 30	Short 460	July		310	475	255
	July 26	Short 220	September		100		
	Do	Short 80	December		60	10	
	Oct. 14	Short 430	do		130	270	75
Total				125	3,120		
25	May 16	Short 100	May	50		5	55
	Sept. 10	Short 500	December	250			500
	Sept. 13	Short 2,010	do	30		5	935
	Sept. 17	Short 2,275	do	250		270	255
	Oct. 18	Short 210	do	100			
	Do	Short 1,695	(1928) May	200			255
	Oct. 20	Short 2,850	do	100		300	
	Do	Short 150	December	50		100	
	Oct. 21	Short 2,450	(1928) May	255			255
Total				1,285			

Footnotes at end of table.

TABLE 27.—*Covering of short commitments in Chicago wheat futures through bids sold and offers bought by 18 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity covered (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
26	Mar. 10	Short 160	May	5		320	1,030
	Mar. 17	Short 280	do	50		190	595
	Mar. 19	Short 80	do	105		485	665
	Mar. 22	Short 190	do	55		360	385
	Mar. 28	Short 105	do	45		220	315
	Mar. 30	Short 145	do	40		60	
	Apr. 7	Short 245	do	50		315	600
	Apr. 9	Short 290	do	100		300	210
	Apr. 21	Short 780	do		170	647	540
	Apr. 29	Short 70	do		85	296	270
	May 16	Short 415	July	50		260	200
	June 3	Short 150	do	50		521	496
	June 23	Short 40	do	25		270	300
	July 22	Short 305	September		45	620	435
	July 28	Short 180	do	15		435	595
	July 29	Short 325	do	85		305	330
	Aug. 29	Short 105	December	50			
	Sept. 10	Short 220	do	80		20	265
	Sept. 17	Short 155	do	100		465	560
	Sept. 21	Short 105	do	110		735	1,095
	Sept. 26	Short 205	do	255		165	685
	Oct. 1	Short 570	do	140		300	380
	Oct. 7	Short 505	do	25		555	455
	Oct. 11	Short 370	do	15		560	905
	Oct. 17	Short 246	do	15			75
	Oct. 21	Short 351	do	145		855	700
Total				1,610	300		
30	May 21	Short 490	July		120	10	40
	June 3	do	do	300		340	85
	June 30	Short 275	September		340		150
	July 28	Short 625	do	15			
	Sept. 13	Short 685	December	40		870	450
	Sept. 21	Short 1,000	do	75		10	100
	Oct. 17	Short 1,300	do	5			
Total				435	460		
31	Feb. 2	Short 100	July		65	25	
	July 12	Short 25	September		25	125	75
	Oct. 25	Short 55	December		100	25	135
Total					190		
32	Aug. 20	Short 240	December		[1] 190	[3] 200 35	[3] 10 120
	Aug. 24	Short 155	do	100		690	1,025
	Sept. 19	Short 435	do		135	255	290
Total				100	325		
34	July 12	Short 20	September	55		200	250
35	Mar. 4	Short 915	May		475	210	135
	Mar. 29	Short 205	do		125	465	315
	Apr. 6	Short 520	do		400		
	Apr. 19	Short 265	do		35	200	240
	Do	Short 255	July		200		
	Apr. 21	Short 395	May		215	350	265
	Apr. 29	Short 630	July		280	205	55
	May 2	Short 545	do		275	580	75
	May 21	Short 830	do		35	465	210
	July 20	Short 1,130	September		300	410	70
	July 26	Short 660	do		200	100	90
	Aug. 20	Short 805	December		100	550	100
	Sept. 19	Short 1,465	do		30	420	130
	Sept. 24	Short 690	do		[1] 105	[3] 145 50	[3] 40
	Oct. 6	Short 1,805	do		400	580	505
	Oct. 8	Short 1,470	do		105	330	230
	Oct. 25	Short 1,820	do		300	765	220
Total					3,580		
Grand total				24,015	10,625		

[1] Net. [2] On bids. [3] On offers.

TABLE 28.—*Covering of short commitments in Chicago corn futures through bids sold and offers bought by 15 large speculators during Jan. 3 to Oct. 31, 1927*

[In thousands of bushels: i.e., 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity covered (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
5	Mar. 5	Short 100	May	100			
	Mar. 10	Short 150	do	100		50	
	Mar. 14	do	do	60		10	
Total				260			
	May 11	Short 2,890	July		525	1,930	
	May 21	Short 595	September	150			120
	June 3	Short 825	do	300			25
	June 10	Short 250	do	300			30
	Sept. 16	Short 630	December	425		1,260	345
Total				1,175	525		
9	Oct. 14	Short 250	December	100			100
15	Feb. 7	Short 100	May	100			
	Feb. 28	Short 150	do	100			
	Mar. 5	Short 50	do	50			
	Mar. 17	Short 200	do	100			
Total				350			
16	Apr. 7	Short 415	May	150			
	Apr. 9	do	do	150		20	
	Apr. 12	Short 345	do	100		25	175
	Apr. 22	Short 840	do	195			200
	Apr. 27	Short 985	do	300		30	5
	July 28	Short 100	December	150			
	Aug. 24	Short 50	do	150			
	Aug. 29	do	do	150			
Total				1,345			
19	Feb. 7	Short 50	May	50			
	Do	Short 100	July	50			
	May 16	Short 120	do	2		13	
	Do	Short 200	September	35			
	May 21	Short 155	July	50			
	Do	Short 215	September	50			
	June 3	Short 100	July	100		100	50
	Do	Short 245	September	55		145	50
	June 25	Short 150	July	10		140	
	July 28	Short 50	December	50			
Total				452			
21	Oct. 1	Short 35	(1928) May	20			30
	Do	Short 25	December	50		15	50
Total				70			
23	Apr. 18	Short 45	May		95	5	
	May 14	Short 285	July		150	155	280
	May 18	Short 255	do		500	335	845
	May 28	Short 325	do		60	285	85
	June 3	Short 630	September	210		710	555
	Aug. 5	Short 115	do		140	150	75
Total				210	945		
24	Feb. 25	Short 405	May		140	45	20
	Mar. 1	Short 600	do		205		100
	Do	Short 190	July		120		
	Mar. 11	Short 635	May		50	540	
	Apr. 29	Short 345	do		100	75	70
	Do	Short 505	July		295		
	May 2	Short 190	do		60		165
	May 19	Short 350	do		230	550	255
	May 27	Short 320	July		500	365	
	Aug. 26	Short 185	September		285	40	
	Do	Short 60	December		125	30	50
	Oct. 25	Short 415	do		30	250	680
Total					2,140		

TABLE 28.—*Covering of short commitments in Chicago corn futures through bids sold and offers bought by 15 large speculators during Jan. 3 to Oct. 31, 1927*—Continued

[In thousands of bushels; i.e.. 000 omitted]

Trader no.	Date	Net position at close of previous day	1927 future	Quantity covered (bought) through—		Other trading in the same future	
				Bids	Offers	Purchases	Sales
25	Sept. 10	Short 400	December	250		150	
26	May 19	Short 205	July		20	710	620
	May 20	Short 95	do	10		205	575
	Aug. 29	Short 50	December	30			
Total				40	20		
30	May 7	Short 140	July		120		
	May 14	Short 5	September		5		
	Sept. 6	Short 350	December	90			100
	Sept. 10	Short 360	do	200			
	Sept. 12	Short 160	do	200			
Total				490	125		
31	Aug. 6	Short 40	December		50	75	
32	Mar. 11	Short 65	May		100	80	
	May 19	Short 275	July		150	10	25
Total					250		
35	Feb. 2	Short 290	May		200		
	Feb. 25	Short 505	do		200		
	Mar. 1	Short 300	do		150		
	Mar. 9	Short 190	do		100		55
	May 24	Short 125	September		100		
	June 25	Short 85	do	35			
	Aug. 26	Short 505	December		100	50	25
Total				35	850		
Grand total				4,777	4,905		

Illustrations.—Trader no. 7 who had the largest short position in Chicago wheat futures during the period of January to October 1927, of any individual speculator was a liberal user of bids in covering his open contracts. On 26 days he was successful in covering short commitments through the sale of bids. For individual days the quantities varied from as little as 100,000 bushels to as much as 1,145,000 bushels. On each of 5 days the volume of short contracts covered was 1,000,000 bushels or more. On each of 20 days the amount covered was at least 500,000 bushels. The aggregate for the 26 days was, as shown in table 27, 14,860,000 bushels. On 15 of the 26 days he made sales of futures ranging from 200,000 to 1,100,000 bushels. Part of the sales no doubt aided in forcing the price of the futures through the price of the bids sold by him. Some of the sales of futures were made at prices below the bid price. Most of the sales of futures were made at prices not more than one fourth of a cent above the price of the bids sold and in quantities more than sufficient to offset the privileges put to him. For example, on February 7 he sold 800,000 bushels of May wheat, most of which was at $1.41⅜-½, which aided in making good bids in that future totaling 500,000 bushels which he had sold the previous day at $1.41⅜. Purchases of 200,000 bushels at $1.41⅜ were also made, which offset the sales to that extent.

Another illustration of the use of bids is the trading of trader no. 25 who was, at the close on September 9 net short 500,000 bushels of

December wheat futures which he had sold at \$1.36 to \$1.36⅜. He also sold bids on that day in the December future aggregating 250,000 bushels, and offers in a like amount. The following day he sold 500,000 bushels of December wheat at \$1.36¼–½, which aided in making the bids good and resulted in the 250,000 bushels being put to him. This enabled him to cover at a lower price half of the short sales he made during the day.

The use of offers by speculators in covering open short commitments is illustrated by the operations of traders nos. 24 and 35, as shown in tables 27 and 28. Both of these traders were primarily buyers of privileges, which indicates why they were principally users of offers in covering short commitments. They also did considerable scalping which is indicated by the large quantity of purchases and sales that took place on the same day.

ATTEMPTS TO ACCUMULATE OR DISPOSE OF LINES THROUGH PRIVILEGES NOT ALWAYS SUCCESSFUL

Attempts to accumulate or close out long or short lines by means of privileges were not always successful because the price of the future frequently did not go through that of the bid or the offer. There were two main reasons why such was the case. (1) The price of the privilege purchased was too far away from the price of the future, so that it would have required considerable additional buying to put the price of the future through that of the offer or considerable additional selling to get it to decline to the price of the bid. In either case, however, the holder of the privilege who wanted to liquidate his long holdings or cover his open short contracts through the pit had a more favorable opportunity to do so. (2) The seller of the bid who wished to accumulate a long line, or the seller of the offer who wanted to liquidate his long holdings may have been unsuccessful because of the opposition encountered. This opposition may have been due to the trading, to a limited extent, by other sellers of privileges who did not want the privileges to be exercised. Also, the execution of resting orders and the coming in of new business induced by the price changes probably contributed to making the venture a failure.

PRIVILEGES CREDITED WITH A STABILIZING INFLUENCE ON THE PRICE OF FUTURES

One of the principal arguments advanced in favor of privilege trading is that it has a stabilizing influence on prices of grain futures by limiting the daily futures price range. This is brought about through the practice of "protecting" privileges sold and trading against those purchased. A trader who has sold bids may do one of several things in order to "protect" them. (1) He may sell futures at prices higher than the price of the bids sold, so that should the future be put to him by the holder of the privilege, the offsetting trade made earlier in the day will enable him to fulfill his obligation without taking a loss. Should the bids not be good at the close of the market, he has the choice of either remaining long, assuming he was "even" at the beginning of the day, or of closing out his futures trades at prices above the bids sold. (2) The seller of the bid, if bullish, may feel that even though the price of the future may decline through the bid price during the early part of the session, a reaction will probably take place which may cause the price of the future to

advance above that of the bid before the close: he anticipates that sufficient buying will come into the market to bring about the recovery of prices. Part of this buying he expects to come from holders of bids who have made purchases of futures below the bid price with a view to putting the futures bought to the seller of the privilege, or of selling the futures at a higher price should the future price advance above the bid price. In the latter case, of course, the privilege would not be exercised. Should the recovery from the low point of the day be slow, and the seller of the privilege feel that futures may be put to him at the close unless the price movement upward is accelerated, he may make purchases of futures with a view to aiding in driving the futures price above the bid price. If successful, he can dispose of his purchases of futures at a higher price than that paid and also not be called upon to make good the privilege sold.

In addition to the alternatives already mentioned, there still remains another method of protecting oneself against the bids sold, i.e., when the price of the future approaches that of the bid, to make purchases of futures with the hope of preventing the price, with the aid of buying on the part of others, from declining through the price of the bid. This latter method, however, is not as frequently used as the other two for the reason that it necessitates trading against the trend of the market, which traders do not care to do. They prefer to operate along the lines of least resistance.

The buyer of bids, as already mentioned, trades against them by purchasing futures after the price of the future has declined through the price of the bid. He does this with the intention of putting the future purchased to the seller of the bid, should the market price of the future close at the price of the bid or lower. Should the closing price of the future, however, be higher than the price of the bid purchased, the buyer will not exercise his right to put, but will sell the future through the pit which will net him a larger profit.

When protecting oneself against the offers sold or trading against those purchased, the method of procedure is just the opposite of that in the case of bids. The seller of the offer tries to buy futures at prices below the offer price, so that he will not suffer a loss in case he is "called" by the holder of the offer. Should the offers not be good, he can sell the futures purchased at the best price obtainable, take a long position in the market, or cover open short commitments. Should he be bearish, even though the price of the future has advanced through that of the offer, he may wait for a reaction to carry futures prices below the offer price. He anticipates that buyers of offers will enter the market to trade against the privileges held by making sales of futures at a price above the offer price, in anticipation of calling the seller of the privilege should offers be good, or of covering their sales of futures at prices below that of the offers should the future price decline below that of the offer purchased.

As has already been mentioned, the buyer of offers trades against them by selling futures when the price of the future has advanced through that of the offers with a view to calling the seller of the offer in case offers are good at the close of the market, or buying in the future should the price decline below that of the offer sold.

The percentage of the daily volume of trading in futures that arises out of sellers protecting themselves against privileges sold and trading against those purchased is not definitely known. It is

estimated that it averages less than 11 percent of the trading in wheat futures. The percentage, however, is greater on days when the price range is large as compared with days when the range is small.[19]

Whatever stabilizing effect protecting and trading against privileges has on prices should be reflected in the relationship that exists between the daily volume of trading in futures and the daily futures price range. The daily range for a given volume of trading should, if there is any stabilizing influence evident, be smaller during a period in which privilege trading was permitted than when trading was not allowed.

In order to determine to what extent privilege trading may have had a stabilizing influence on prices of grain futures, the daily range in the price of the dominant or most active wheat future at Chicago in its relation to the total volume of trading in wheat futures was compared for two 4-year periods. The first was from January 3, 1922, to January 13, 1926, when trading in privileges was not permitted; and the second ran from January 14, 1926, to December 31, 1929, during which trading in privileges was allowed. The former period included 1,214 days, or a little more than 4 years, whereas the latter included 1,194 days, or slightly less than 4 years.

Approximately 87 percent of the time the daily ranges in the price of the dominant wheat future are less than 4 cents; therefore, if privileges have any stabilizing influence on the price of futures, such influence in order to be worthwhile must be effective on those days when the range is less than 4 cents. Some idea as to the stabilizing influence of privileges can be obtained from the data presented in tables 29 and 30.

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[19] Table 30 shows the increase in the volume of trading associated with specified daily price ranges in the dominant future when trading in privileges was permitted as compared with a similar period when trading was prohibited. The increase includes trades in futures arising out of privileges exercised and such additional trading as was carried on by buyers of privileges who traded against them, and by sellers who traded to protect themselves against the possibility of having futures put to them or being called for futures. A glance at the table will show that this increased volume of trading is 13 percent or less of the weighted average daily volume of trading during the period of Jan. 14, 1926, to Dec. 31, 1929, when trading in privileges was allowed.

TABLE 29.—*The number and percentage of days that daily range in the price of the dominant Chicago wheat future were associated with various volumes of trading in all wheat futures for two 4-year periods, Jan. 3, 1922, to Jan. 13, 1926, when trading in privileges was prohibited, and Jan. 14, 1926, to Dec. 31, 1929, when such trading was permitted*

Volume of trading (millions of bushels)	Range																			
	Under 1 cent				1 to 2 cents				2 to 3 cents				3 to 4 cents				4 to 5 cents			
	1922 to 1925		1926 to 1929		1922 to 1925		1926 to 1929		1922 to 1925		1926 to 1929		1922 to 1929		1926 to 1929		1922 to 1925		1926 to 1929	
	Days	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*	*Days*	*Per-cent*
Less then 5	1	0.86	1	0.75																
5 to 10	31	26.73	23	17.29	9	1.95														
10 to 15	33	28.45	43	32.33	28	6.07	15	2.74												
15 to 20	30	25.86	32	24.06	81	17.57	74	13.53	1	0.33										
20 to 25	11	9.48	18	13.53	98	21.26	99	18.10	12	4.03	6	1.85								
25 to 30	6	5.18	9	6.77	86	18.65	106	19.38	23	7.72	22	6.77	4	2.50			1	1.05		
30 to 35	2	1.72	3	2.27	71	15.40	94	17.18	45	15.10	49	15.08	5	3.13	3	2.58				
35 to 40	1	.86	2	1.50	41	8.89	68	12.43	62	20.81	56	17.23	14	8.75	8	6.90	2	2.11	1	2.17
40 to 45			2	1.50	27	5.86	40	7.31	42	14.09	52	16.00	17	10.62	8	6.90	5	5.26		
45 to 50	1	.86			9	1.95	27	4.94	44	14.77	44	13.54	29	18.12	12	10.34	7	7.37	3	6.51
50 to 55					7	1.52	11	2.01	25	8.39	27	8.31	26	16.25	10	8.62	10	10.53	4	8.70
55 to 60					4	.88	4	.73	15	5.03	31	9.54	15	9.38	14	12.07	13	13.68	2	4.35
60 to 65							4	.73	10	3.36	15	4.62	24	15.00	17	14.66	15	15.79	9	19.57
65 to 70							2	.37	9	3.02	8	2.46	10	6.25	10	8.62	14	14.74	5	10.87
70 to 75							2	.37	6	2.01	10	3.08	9	5.63	14	12.07	7	7.37	2	4.35
75 to 80									2	.67	1	.30	4	2.50	9	7.75	8	8.42	4	8.70
80 to 85							1	.18			2	.61	2	1.25	4	3.45	6	6.32	5	10.87
85 to 90									2	.67	2	.61			3	2.59	4	4.21	6	13.05
90 to 95													1	.62			1	1.05	1	2.17
95 to 100															4	3.45			1	2.17
100 to 105																	1	1.05	1	2.17
105 to 110																			2	4.35
110 to 115																	1	1.05		
Total	116	100.00	133	100.00	461	100.00	547	100.00	298	100.00	325	100.00	160	100.00	116	100.00	95	100.00	46	100.00

TABLE 30.—*Weighted average daily volume of trading in Chicago wheat futures associated with specified price ranges in the dominant wheat future during the 4-year period, Jan. 3, 1922, to Jan. 13, 1926, when trading in privileges was prohibited, compared with a like period, Jan. 14, 1926, to Dec. 31, 1929, when trading was permitted*

Daily price range (cents)	Weighted average daily volume of trading when trading in bids and offers was—		Increase in daily volume of trading during period when privilege trading was permitted	Approximate average daily stabilizing influence of privileges on price range of futures
	Prohibited	Permitted		
	Million bushels	*Million bushels*	*Million bushels*	*Cents*
Less than 1	15	16	1	(1)
1 to 2	27	30	3	⅛ to ¼
2 to 3	43	45	2	⅛ to ¼
3 to 4	53	61	8	¼ to ⅜
4 to 5	64	72	8	¼ to ⅜

1 None.

Table 29 shows the number and percentage of days during each of the two 4-year periods that specified volumes of trading were associated with different price ranges. Two outstanding things can be seen in the table. (1) The tendency for the number and percentage of days for each range to concentrate around certain volumes of trading. For example, with a range of less than 1 cent the greatest number of days falls within those classes of trading coming within 5,000,000 and 20,000,000 bushels. With a range of 1 to 2 cents, it comes within the limits of 15,000,000 and 35,000,000 bushels, the limits becoming larger as the size of the range increases. (2) Until the volume of trading reaches a certain amount, the percentage of days falling within the various classes tends to be larger for the 4-year period during which trading in privileges was prohibited than during the period in which such trading took place. After this maximum has been reached, the reverse is the case. For instance, it will be seen by referring to table 29 that when the daily range was from 1 to 2 cents the percentage of days associated with the various-sized volumes of trading was larger during the period when privilege trading was prohibited than for the period when it was permitted, until the volume reached the 20,000,000 to 25,000,000 bushel mark. For the former period the percentage figures increased from 1.95 to 21.26, whereas for the latter they increased from 2.74 to 18.10 percent. Beginning with 25,000,000 to 30,000,000 bushels, the percentage figures for the period in which there was no trading in privileges not only decreased, but were smaller than those for the period during which trading in privileges occurred. A similar tendency exists for the other ranges. The point at which the change takes place, however, is different for each of the ranges. For a range of 2 to 3 cents, it is 35,000,000 to 40,000,000 bushels; for 3 to 4 cents, 50,000,000 to 55,000,000 bushels; for 4 to 5 cents, 75,000,000 to 80,000,000 bushels; and for 5 to 6 cents, 80,000,000 to 85,000,000 bushels.

This tendency for the percentage to be greater for the one period than the other shows that with privilege trading a larger daily volume of trading in futures can be expected to be associated with a given price range than when there is no trading in privileges.

If for each of the ranges the number of days is weighted by the volume of trading, and if the figures so obtained are added together and then divided by the total number of days that the particular price range occurred, a weighted average daily volume of trading figure for each of the respective price ranges will be secured. The weighted average for each of the ranges for both of the 4-year periods, as shown in table 30, makes it possible to approximately estimate the influence of privileges on prices of futures.

During the 4-year period that trading in privileges was prohibited, the averages for the various daily ranges, as seen in the table, were somewhat smaller than for the 4 years that trading was allowed. The difference in favor of the latter was as follows: For a daily range of less than 1 cent, 1,000,000 bushels; for 1 to 2 cents, 3,000,000 bushels; for 2 to 3 cents, 2,000,000 bushels; for 3 to 4 cents, 8,000,000 bushels; and for 4 to 5 cents, 8,000,000 bushels. These differences do not necessarily represent an equivalent amount of additional trading that has gone through the pit, as was previously pointed out. A small portion of it represents the transfer of open commitments acquired at some previous date. The remainder of these various amounts, no doubt, constituted trading against privileges on the part of buyers and the protecting of privileges sold on the part of sellers. The approximate average stabilizing effect of this type of trading was, based on a study of the relationship existing between volume of trading and daily ranges in price of futures, as follows: When the daily range was less than 1 cent, none; when the range was 1 to 2 cents, the stabilizing influence probably was ⅛ to ¼ cent; for 2 to 3 cents, ⅛ to ¼ cent; for 3 to 4 cents, ¼ to ⅜ cent; and for 4 to 5 cents, ¼ to ⅜ cent.

UNFAVORABLE ASPECTS OF PRIVILEGE TRADING

SMALL TRADERS OF VERY LIMITED MEANS INDUCED TO SPECULATE

It has already been pointed out that although the buying of privileges may provide some overnight protection against price changes in futures, the greater part of the trading is probably done for some other purpose. The small traders, comprising the general public, as has been previously mentioned, are principally buyers apparently not so much for protective purposes but rather as a means of speculating on price changes in grain futures on less capital than would be required were the trades in futures fully margined. From a social viewpoint this is not desirable as the very limited funds of the small trader could probably be used to better advantage elsewhere.

It was also shown that privileges on the average are good only 1 day in 6 or 7, and when good the gross profits are frequently so small that much of the time they would, if exercised for the nonmember customer's account, result in a loss to the customer after commissions and taxes are deducted, and consequently the general practice among commission houses is to take such trades into their own account. This suggests that the small nonmember traders are in the main merely a source of profit for commission houses and large speculators and in addition provide a means whereby such large speculators are aided in building up and disposing of large lines under cover.

Small traders, on the whole, apparently being losers in their privilege trading, leads one to the conclusion that it is folly for them to engage in trading in privileges unless purchased purely for protecting open commitments.

It should, however, be said that those who purchase privileges as a speculation limit their risk to the cost of the bid or offer, whereas those who speculate in futures assume greater risks.

GAMBLING ELEMENT ASSOCIATED WITH IT

The old system of privilege trading by the payment of "differences", although undesirable, was nevertheless more generous to the small trader in that the commission charges were less than at present. The old practice of settlement by payment of differences caused, in part, privilege trading to be considered as gambling on price changes. The difference represented the spread between the price of the privilege and the future at the close of the market on the day the privilege was exercised.

Then, as now, the greater part of privilege trading was not associated with the shifting of an existing unavoidable risk on the part of the producers or merchandisers of grain or grain products and this contributed to its being considered as a type of gambling. The present system of settlement, requiring that futures must be put or called whenever a privilege is exercised, still has some of the gambling element connected with it. Even with present requirements, which make trading in privileges more expensive than formerly, there still is much trading on the part of those who are willing to "take a chance" on very limited capital in the hope of making a profit on price changes.

Alfred Marshall, professor of economics at Oxford College, Cambridge, England, in referring to privileges states (*6, footnote p. 257*):

> A contract in relation to a future often takes the form of an "Option" by which the payment of a certain sum secures the right to demand certain things (or to sell them) within a given period at a specified price: these two options may be combined, an option to buy at a stated price being coupled with one to sell at a stated higher price. There are a few cases in which dealings in options are part of legitimate trade. But there appears to be more force in the arguments for prohibiting them by law than for prohibiting a simple buying or selling of futures; for they are relatively more serviceable to the gambler and the manipulator than to the straightforward dealer.

PRIVILEGES CAUSE ARTIFICIAL PRICE MOVEMENTS

Trading in privileges results in additional trading in futures arising out of the practice of protecting privileges sold or trading against those purchased. This type of trading, which has been described in a previous section, affects prices of futures. Such trading, not induced primarily by changes in fundamental conditions such as changes in present or prospective supplies of, or demand for, cash grain, but principally with a view to making one's privilege transactions profitable, brings about price movements which are somewhat artificial in character. It adds an element with which other speculators have to reckon when deciding on whether to buy or to sell futures.

Trading in futures brought about by trading against privileges purchased or protecting those sold has, as was previously stated, a stabilizing influence on prices and also contributes to making the market more liquid, which, however, compensate but partially for the artificial influence of such trading on futures prices.

INCREASES CONGESTION AT CLOSE OF FUTURES MARKET

When a buyer of privileges wishes to take a profit in the privilege exercised and not change his position in the market, he makes a purchase to offset the future put and a sale to offset the future called. The seller of privileges in making offset trades does the reverse. The making of the offsetting transactions at times accentuates the congestion at the close of the market caused by scalpers' "evening up" for the day and the execution of customers' orders to buy or sell "at the close."

The making of offsetting trades by buyers of privileges tends to widen the closing price range of the individual futures. This tendency to widen the range, however, is in part counteracted by new trades made for the accounts of other customers, by scalpers, or by such offsetting trades as are made by the sellers of privileges. However, the sellers of privileges, being principally the professional traders who are interested in building up or disposing of large lines of futures, are apt not to make offsetting trades but to change their position in the market should the futures be put or called by the holders of the privileges.

SUMMARY

Trading in privileges on the Chicago Board of Trade has been carried on at intermittent periods since the early sixties. From time to time the exchange tried to prohibit its members from trading in privileges, but such efforts did not meet with success as the members resorted to the Open Board of Trade, another market in Chicago, and to the exchange at Milwaukee, where trading in privileges was permitted. The disciplining of members who persisted in the practice was not feasible, as there were so many engaged in privilege trading that to have disciplined all who violated the rules would have meant the disruption of the board. The Illinois law of 1874 which prohibited trading in privileges was not strictly enforced, and in 1913 it was amended, apparently to exempt privilege transactions not settled by the payment of "differences." It was the payment of differences that was considered a gambling feature of privilege trading. With the change in the Illinois law trading in privileges was again permitted on the exchange. In 1921 the directors of the Chicago Board of Trade recommended to the president of the board that trading in privileges be prohibited by amendment of the rules, as the directors believed that the advantages of such trading were outweighed by its disadvantages. With the passage of the Future Trading Act in 1921 privilege trading was, in effect, prohibited by Federal statute until the United States Supreme Court in a decision rendered on January 11, 1926, declared that the provision imposing a prohibitive tax on privileges was an unconstitutional exercise of the taxing power. This decision was immediately followed by the resumption of privilege trading on the exchange.[20]

Although no record is kept of the volume of trading in privileges on the Chicago Board of Trade, indications are, based on data acquired by the Grain Futures Administration for 2 months in 1926, that such trading is equivalent to about 15 percent of the trading in grain futures. The trading in privileges is principally for the account

[20] On July 24, 1933, trading in privileges was suspended by order of the board of directors until further notice.

of speculators. The general public are for the most part buyers, and the large speculators are principally sellers. Privileges are not used to any great extent by merchandisers of grain or grain products.

About 75 percent of the time privileges sell at a distance of 1 to 2 cents from the closing price of the future. The months during which deliveries are made usually show the widest range. The supply and demand for privileges, the length of time the privilege has to run and the past trend and present state of the market are the factors determining the distance that privileges sell from the close.

Although the privilege market indicates whether trade sentiment is primarily bullish or bearish by the distance that privileges sell from the close, as a forecaster of the next day's price trend, it was correct only 63 percent of the time. Twenty-nine of the large speculators, however, who were sellers of privileges were as a group right, on the average, 73 percent of the time in forecasting the next day's price trend. Their heavy trading, which at various times has moved prices in the direction of their trading, as revealed in published reports of the Grain Futures Administration (*2, 3, 8, 9*), accounts, in part, for their large percentage of correct forecasts.

Privileges good for 1 day are exercisable on the Chicago Board of Trade about once in every 4 or 5 days. For the average individual, however, who cannot always secure his privileges at the most advantageous price, they are good not more frequently than 1 day in 6 or 7.

More than 50 percent of the time that privileges are good the gross profit is three-eighths of a cent or less per bushel .The 5-year weighted average spread was around five-eighths cent per bushel for both bids and offers. The large number of instances that the spread is three-eighths cent or less and the small percentage of time that privileges are exercisable account in part for the fact that privilege trading on the part of the general public, for purposes other than protection, is unprofitable. In the case of the larger speculator in privileges, privilege trading has on the average been profitable only to the seller. Whenever the spread is one-fourth of a cent or less, the general practice is for the commission house to take the trade of the nonmember customer into its own account as the gross profit would be converted into a loss to the customer after paying commissions and taxes.

Privilege trading is considered useful by many members of the grain trade in that it affords protection against price changes, makes possible the financing of speculative transactions on a small capital, is a source of profit to some individuals, provides for the large speculator a means of getting in and out of the market under cover, and has a stabilizing influence on prices of futures.

Its unfavorable aspects are the following: The small amount of capital required to trade in privileges encourages speculation by traders of limited financial resources. The practice of trading against privileges bought and protecting those sold causes artificial price movements. The making of offsetting trades at the close of the futures market by the buyers of privileges who are taking profits, and by sellers who are taking losses, adds to the congestion at the close occasioned by scalpers' "evening up" for the day and the execution of orders to buy or sell "at the close."

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U. S. GOVERNMENT PRINTING OFFICE: 1934